

FEBRUARY 12, 2019

	11-Feb	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	36,395	(0.4)	1.1	3.5
NIFTY Index	10,889	(0.5)	0.9	2.9
NSEBANK Index	27,228	(0.2)	(0.8)	5.7
NIFTY 500 Index	8,967	(0.8)	(1.4)	0.2
CNXMcap Index	16,320	(1.7)	(7.6)	(7.3)
BSESMCAP Index	13,450	(1.5)	(7.9)	(8.3)
<b>World Indices</b>				
Dow Jones	25,053	(0.2)	4.4	(1.3)
Nasdaq	7,308	0.1	4.8	1.5
FTSE	7,129	0.8	3.0	1.1
NIKKEI	20,333	(2.0)	1.9	(6.8)
Hangseng	20,333	(2.0)	1.9	(6.8)
Shanghai	28,144	0.7	5.4	9.6

<b>Value traded (Rs cr)</b>	11-Feb	% Chg Day
Cash BSE	2,213	(14.5)
Cash NSE	27,308	(9.1)
Derivatives	546,033	(8.6)

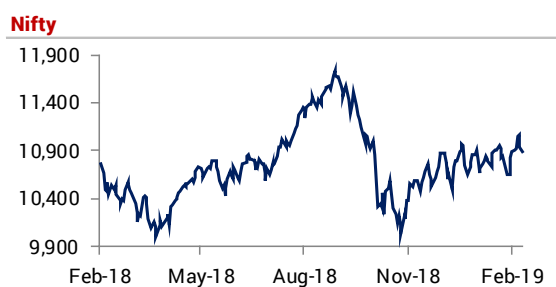
<b>Net inflows (Rs cr)</b>	8-Feb	MTD	YTD
FII	812	3,330	2,825
Mutual Fund	(861)	(479)	6,682

<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
11-Feb	(Rs)	(%)	(mn)
<b>Gainers</b>			
Tata Steel Ltd	481	2.6	23.3
Cipla Ltd	543	1.7	3.0
Indian Oil Corp	136	1.5	11.3
<b>Losers</b>			
Dr Reddy's Lab	2,615	(5.6)	1.9
Mahindra & Mahindra	648	(5.1)	7.9
ONGC	138	(4.1)	6.4

<b>Advances / Declines (BSE)</b>					
11-Feb	A	B	T	Total	% total
Advances	98	287	20	405	100
Declines	328	730	76	1,134	280
Unchanged	3	22	8	33	8

<b>Commodity</b>	11-Feb	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	62.0	0.9	2.6	(11.5)
Gold (US\$/OZ)	1,308.2	(0.5)	1.6	9.0
Silver (US\$/OZ)	15.7	(0.8)	0.8	12.3

<b>Debt / forex market</b>	11-Feb	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.3	7.6	7.8
Re/US\$	71.2	71.3	70.5	72.9



Source: Bloomberg

## News Highlights

- ▶ The government is not considering any other merger proposal in public sector banks at the moment as it would wait for completion of the amalgamation of **Dena Bank** and **Vijaya Bank** with **Bank of Baroda (BoB)**, official sources said. (ET)
- ▶ UAE's Abu Dhabi National Oil Co (ADNOC) and its partner Saudi Aramco have jointly taken a 50 per cent stake in the planned USD 44 bn refinery-cum-petrochemical complex at Ratnagiri in Maharashtra. (ET)
- ▶ Brookfield Asset Management to acquire **Hotel Leelaventure** with lender **JM Financial** for around Rs 45 bn, and the deal is likely to be announced in the next few days, two persons familiar with the development said. (ET)
- ▶ The promoters of **Apollo Hospitals** are planning to cut the level of pledged shares by at least 50 per cent in the next six months. The promoters have around 34.40 per cent stake in Apollo Hospitals Enterprise Ltd (AHEL). And, almost 74 per cent of that stake was pledged till the end of December 2018. Between December and January, there has been a 5 per cent increase in pledges. (BS)
- ▶ The National Company Law Appellate Tribunal (NCLAT) allowed 22 companies placed under the "green" category by the new board of **Infrastructure Leasing & Financial Services (IL&FS)** and the government to start servicing routine debt obligations, according to schedule. (BS)
- ▶ **India Home Loan's** board approved fund raising plan. (MC)
- ▶ **Persistent Systems** appointed Christopher O' Conner as CEO Designate. The company said that he will join the company via U.S. arm with effect from Feb. 25. (BQ)
- ▶ Specified Undertaking of the United Trust of India (SUUTI) to sell up to 5,07,59,949 (representing 1.98 percent of paid-up equity) equity shares of **Axis Bank**, on February 12 and 13, with an option to additionally sell 2,63,37,187 (1.02 percent) equity shares through offer for sale. (MC)
- ▶ **IL&FS Transportation Networks**, interest due and payable on February 11 on the NCD was not paid to the debenture holders due to insufficient funds. (MC)
- ▶ **Gulf Oil Lubricants India** announced its association with **Mahindra Logistics** to strengthen its supply chain and to implement its post GST supply chain consolidation strategy. (MC)
- ▶ EU antitrust regulators will likely warn this week Germany's Thyssenkrupp and **Tata Steel** about their landmark joint venture unless they pre-empt the move by offering concessions, people familiar with the matter said. (BS)
- ▶ **KNR Constructions** to sell entire shareholding in its SPV with Cube Highways and Infra for Rs 344.6 mn. (BQ)
- ▶ Bank of America Merrill Lynch emerged as the sole bidder in **SBI's** auction of its loans to Essar Steel, but it bid for only a part of the Rs 130 bn loans the lender put on the block. (ET)
- ▶ **NTPC** has signed a term loan agreement for Rs 50 bn with **SBI**. (BS)

## What's Inside

- ▶ **Result Update:** Bajaj Electricals, AIA Engineering, Engineers India, Arvind Ltd, MoIL Ltd, VRL Logistics, Va Tech Wabag, Finolex Industries and Sterling Tools

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, Tol: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

### Stock Details

Market cap (Rs mn)	:	49067
52-wk Hi/Lo (Rs)	:	706 / 416
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	253,679
Shares o/s (mn)	:	102

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	47,075	70,304	68,252
Growth (%)	10.5	49.3	-2.9
EBITDA	2,934	4,359	4,914
EBITDA margin (%)	6.2	6.2	7.2
Adj. PAT	1,730	2,092	2,404
EPS	17.0	20.5	23.6
EPS Growth (%)	60.6	20.9	14.9
BV (Rs/share)	92	107	125
Dividend/share (Rs)	4.2	5.2	6.2
ROE (%)	19.2	20.6	20.4
ROCE (%)	10.2	9.3	8.8
P/E (x)	28.7	23.8	20.7
EV/EBITDA (x)	19.3	13.0	11.5
P/BV (x)	6.5	5.6	4.8

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	62.7	62.8	62.9
FII	7.1	9.6	9.7
DII	7.3	5.3	5.3
Others	23.0	22.3	22.1

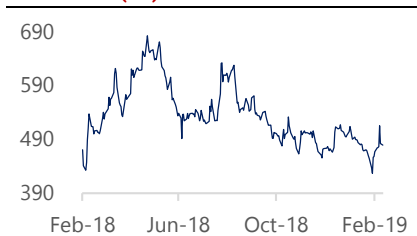
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Bajaj Electricals	(1.0)	(4.5)	(21.0)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

## BAJAJ ELECTRICALS LTD (BAEL)

PRICE RS.478

TARGET RS.550

BUY

BAEL reported Q3FY19 PAT in line with our estimate; consumer durable (CD) business grew 26.7% y/y with increasing RREP based distribution coverage. E&P business revenue reported substantially higher execution at Rs 14 Bn (+157% y/y) driven by execution of UP rural electrification project.

### Key Highlights

- BAEL reported net revenues of Rs 21.6 Bn (+88.8% y/y) in Q3FY19 driven by 157% y/y growth in the E&P business. Consumer durable division reported revenues at Rs 7.6 Bn against Rs 6 Bn in Q3FY18.
- EBIT margin for the consumer segment is reported at 7.3% against 6.5% in Q3FY18 on back of improved volumes. In E&P segment, BAEL reported extremely higher growth in revenues at Rs 14 Bn (+157% y/y) with EBIT margin at 5.6% against 5.9% in Q3FY18

### Valuation & Outlook

We broadly maintain our earnings estimate for FY20 and arrive at a SOTP based revised target price of Rs 550 (Rs 545 earlier); move recommendation to 'BUY' from 'ACCUMULATE' earlier on company's stock.

### Q3FY19 Result

(Rs mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Net Sales</b>	<b>21618</b>	<b>11451</b>	<b>88.8</b>	<b>15984</b>	<b>35.2</b>
Other Income	55	96	(42.5)	58	(4.2)
Raw material cost	451	255	76.6	449	0.4
Purchase of traded goods	15562	7514	107.1	11151	39.6
Employee cost	1954	1362	43.5	1740	12.3
other expenditure	2273	1618	40.5	1845	23.2
Total expenditure	20241	10748	88.3	15185	33.3
<b>EBITDA</b>	<b>1378</b>	<b>703</b>	<b>96.0</b>	<b>799</b>	<b>72.3</b>
Depreciation	100	83	19.9	94	6.2
<b>PBIT</b>	<b>1333</b>	<b>716</b>	<b>86.3</b>	<b>763</b>	<b>74.7</b>
Interest expense	333	144	132.1	230	44.7
<b>PBT</b>	<b>1000</b>	<b>572</b>	<b>74.8</b>	<b>533</b>	<b>87.7</b>
Extraordinary items	0	-		0	
Tax Expense	361	204	77.0	192	88.1
<b>Reported PAT</b>	<b>639</b>	<b>368</b>		<b>341</b>	
<b>Adj. PAT</b>	<b>639</b>	<b>368.2</b>	<b>73.6</b>	<b>341</b>	<b>87.5</b>
<b>EPS (adj)</b>	<b>6.3</b>	<b>3.6</b>	<b>73.6</b>	<b>3.3</b>	
EBITDA (%)	6.4	6.1		5.0	
Tax (%)	36.1	35.7		36.0	
RM/Sales (%)	74.1	67.8		72.6	

Source: Company

### Result Highlights

BAEL reported net revenues of Rs 21.6 Bn (+88.8% y/y) in Q3FY19 driven by 157% y/y growth in the E&P business. Consumer durable division reported revenues at Rs 7.6 Bn against Rs 6 Bn in Q3FY18. Volumes were up in almost all products categories aided by increased RREP reach in the quarter.

Ruchir Khare

ruchir.khare@kotak.com

+91 22 6218 6431

EBIT margin for the consumer segment is reported at 7.3% against 6.5% in Q3FY18 on back of improved volumes. We note that the company has made radical changes to its distribution (transiting from wholesaler-based selling to direct retail selling under RREP model) in the last two years. As per the management, RREP roll out has been encouraging so far and company would likely report recovery from the current year onwards. Management expects to maintain current growth rate of 22-25% in the CD business going ahead.

In E&P segment, BAEL reported extremely higher growth in revenues at Rs 14 Bn (+157% y/y) with EBIT margin at 5.6% against 5.9% in Q3FY18. As, per management margins are headed for modest y/y contraction in FY19 in the E&P business due to execution of Rs 50 Bn UP power distribution contract. Current order book, stands at Rs 58 Bn. Order book includes USD 4.2 mn power distribution turnkey order in Africa (Zambia) and c. Rs 50 Bn in UP (rural power distribution project) it won recently.

Management maintained that Uttar Pradesh order (over 65% of company's E&P order book) to get executed through 4QFY19-FY20.

### Segment Results

(Rs mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Consolidated revenues</b>					
Consumer Durables	7606	6002	26.7	6423	18.4
Engg Projects	14011	5449	157.1	9559	46.6
<b>PBIT</b>					
Consumer Durables	552	391	41	369	49.6
Engg Projects	790	321	146	396	99.5
<b>PBIT (%)</b>					
Consumer Durables	7.3	6.5		5.7	
Engg Projects	5.6	5.9		4.1	

Source: Company

Interest charges increased to Rs333 mn in Q3FY19 vis-à-vis Rs 144 mn last year. We note (consistent with management view) that the borrowings are bound to increase (by Rs 4-5 Bn) over FY19/20 to fund working capital related to E&P business. Adjusted net profit in Q3FY19 stood at Rs 639 mn vis-à-vis Rs 368 mn in Q3FY19.

### RREP program should get implemented over the period of next two years

BAEL launched RREP (Retail reach expansion program) in FY16 to reach out to dealers more efficiently as against traditional wholesaler based model of selling. The RREP programs (TOC-Theory of constraints based model) is currently under implementation and has had diminishing effect on company's primary sales over the last few quarters. Management has earlier highlighted that TOC model would start yielding benefits (partially) from FY18 onwards. However, full benefits from TOC based distribution model are expected to materialize from FY18.

Management believes that TOC based RREP model would provide benefits in terms of 1) improved engagement with dealers, 2) establish efficient feedback mechanism, 3) expand product reach for premium/newly launched products and 4) achieve lower inventory levels.

Under RREP (where supply chain is highly centralized) company is optimistic of seeking benefits from 1) improved purchases in terms of bulk buying, 2) savings from lower investment in ideal inventory (slow moving products) and 3) reduction in discounts offered to large wholesalers.

As a second step under TOC based selling, company would aim at increasing sales and expect recovery from FY18 onwards. We suspect that the company has lost market share in the past few quarters (reflected in company's poor sales in last few quarters' vis-à-vis competitors). As of now, TOC covers nearly 90% of distributors.

We note that in the past, some of the other competitors have also made attempts to realign the distributor discounts. For instance, in FY16 Havells too has averted the practice of offering additional discounts to the large distributors and had experienced temporary fall in sales. However, we fail to identify any major players who have completely done away with wholesalers' based selling. Most of the players, we believe have resorted to a combination (40-60 or 50-50) of wholesalers and direct selling model. We therefore believe that the company would have to be swift and efficient in ramping up sales (by means of aggressive advertising campaigns to create demand pull) post full commencement of RREP and regain lost market share. We believe that the successful rollout of RREP is critical for the company and remain watchful of the developments and progress made in this direction.

### Valuation and Recommendation

We broadly maintain our earnings estimate for FY20 and arrive at a SOTP based revised target price of Rs 550 (Rs 545 earlier); move recommendation to 'BUY' from 'ACCUMULATE' earlier on company's stock.

#### Valuation

(Rs mn)	FY20E
<b>B2C</b>	
EBIT B2C	2,888
Interest	(300.00)
Tax	(854.07)
<b>PAT</b>	<b>1,734</b>
Target PER	27
Target Market Capitalization (B2C) (a)	46,818
EBIT B2B	2,529
Interest	(800)
Tax	(571)
<b>PAT</b>	<b>1,159</b>
Target PER	8
Target Market Capitalization (B2B) (b)	9,269
Target Market Capitalization (BAEL) (a+b)	56,087
<b>Target price per share (BAEL)</b>	<b>550</b>

Source: Kotak Securities – Private Client Research

### About the company

Bajaj Electricals business is spread across – consumer Products, exports, luminaires and EPC (Illumination, Transmission Towers and Power Distribution). Within consumer products, it deals in a wide range of products from fans, mixers, heaters, oven, toasters etc and enjoys reasonable market share of 15-18% in each vertical. Moreover company keeps on adding new revenue streams on constant basis by introducing new product lines in the consumer business. Bajaj Electricals has pan India presence which is being supported by a chain of distributors, authorized dealers, retail outlets, and exclusive showrooms called 'Bajaj World'. BAEL also have a presence in the hi-end range of appliances with brands like Platini and Morphy Richards in India.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>42,617</b>	<b>47,075</b>	<b>70,304</b>	<b>68,252</b>
% change yoy	(7.6)	10.5	49.3	(2.9)
<b>EBITDA</b>	<b>2,427</b>	<b>2,934</b>	<b>4,359</b>	<b>4,914</b>
% change yoy	(6.4)	20.9	48.5	12.7
Depreciation	299	339	407	468
<b>EBIT</b>	<b>2,129</b>	<b>2,595</b>	<b>3,952</b>	<b>4,446</b>
% change yoy	(8.3)	21.9	52.3	12.5
Net Interest	804	589	1,129	1,157
Earnings Before Tax	1,681	1,748	3,122	3,588
% change yoy	9.5	51.0	23.0	14.9
Tax	604	809	1,030	1,184
as % of EBT	35.9	46.2	33.0	33.0
<b>Recurring PAT</b>	<b>1,077</b>	<b>1,730</b>	<b>2,092</b>	<b>2,404</b>
% change yoy	12.7	60.6	20.9	14.9
Shares outstanding (mn)	101.9	101.9	101.9	101.9
<b>EPS (Rs)</b>	<b>10.6</b>	<b>17.0</b>	<b>20.5</b>	<b>23.6</b>
DPS (Rs)	2.8	4.2	5.2	6.2
CEPS	13.5	20.3	24.5	28.2

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,681	1,748	3,122	3,588
Depreciation	299	339	407	468
Current liabilities incl provisos	(3,613)	1,414	10,244	(722)
inc in inventory	(645)	(80)	(3,839)	(1,028)
inc in sundry Debtors	(2,846)	(3,655)	(13,586)	984
inc in advances	(13)	(12)	5	-
Tax Paid	(604)	(809)	(1,030)	(1,184)
Other Adjustments	2,466	(942)	(682)	53
<b>Net cash from operations</b>	<b>(3,275)</b>	<b>(1,995)</b>	<b>(5,359)</b>	<b>2,160</b>
Purchase of fixed Assets	(482)	(321)	(715)	(500)
Net investments	(126)	643	-	-
Long term provisions	313.2	20.9	0	0
<b>Net cash from investing</b>	<b>(294)</b>	<b>343</b>	<b>(715)</b>	<b>(500)</b>
Change in Borrowings	3,487	1,721	6,939	(500)
Dividend Paid	(341)	(428)	(530)	(632)
<b>Net Cash from financing</b>	<b>3,145</b>	<b>1,293</b>	<b>6,409</b>	<b>(1,132)</b>
Net Cash Flow	(423)	(359)	335	528
Cash at the end of year	653	294	628	1,157

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	653	294	628	1,157
Accounts receivable	16,467	20,121	33,707	32,723
Inventories	5,712	5,792	9,631	10,658
Other current assets	2,130	3,546	4,501	4,917
Current Assets	24,308	29,459	47,839	48,298
Investments	720	77	77	77
Net fixed assets	3,179	3,161	3,468	3,499
Other non-current assets	1,924	1,669	1,391	923
<b>Total Assets</b>	<b>30,783</b>	<b>34,659</b>	<b>53,403</b>	<b>53,954</b>
Debt	5,455	7,176	14,115	13,615
Equity & reserves	8,429	9,161	10,723	12,496
Other liabilities	1,795	1,803	1,802	1,803
Current Liabilities	15,104	16,519	26,762	26,040
<b>Total Liabilities</b>	<b>30,783</b>	<b>34,659</b>	<b>53,403</b>	<b>53,954</b>
BVPS (Rs)	84.7	91.9	107.2	124.6

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	5.7	6.2	6.2	7.2
EBIT margin (%)	5.0	5.5	5.6	6.5
Net profit margin (%)	2.4	1.8	3.0	3.5
Receivables (days)	141.0	156.0	175.0	175.0
Inventory (days)	48.9	44.9	50.0	57.0
Sales / Net Fixed Assets (x)	3.2	3.4	4.8	4.4
Interest coverage (x)	2.6	4.4	3.5	3.8
Debt/ equity ratio	0.6	0.8	1.3	1.1
ROE (%)	13.3	19.2	20.6	20.4
ROCE (%)	8.4	10.2	9.3	8.8
EV/ Sales	1.3	1.2	0.8	0.8
EV/EBITDA	23.3	19.3	13.0	11.5
Price to earnings (P/E)	46.2	28.7	23.8	20.7
Price to book value (P/B)	7.1	6.5	5.6	4.8
Price to cash earnings	44.4	29.5	24.5	21.3

Source: Company, Kotak Securities – Private Client Research



## Result Update

# AIA ENGINEERING LTD (AIA)

### Stock Details

Market cap (Rs mn)	:	157411
52-wk Hi/Lo (Rs)	:	1887 / 1321
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	36,398
Shares o/s (mn)	:	94

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	24,452	31,542	38,482
Growth (%)	8.9	29.0	22.0
EBITDA	5,357	6,939	8,851
EBITDA margin (%)	23.5	22.0	23.0
PAT	4,436	5,037	6,435
EPS	47.0	53.4	68.2
EPS Growth (%)	(3.0)	13.6	27.7
BV (Rs/share)	319	366	426
Dividend/share (Rs)	5.6	6.8	8.1
ROE (%)	15.5	15.6	17.2
ROCE (%)	10.7	11.3	12.9
P/E (x)	36.2	31.9	25.0
EV/EBITDA (x)	29.8	23.0	18.0
P/BV (x)	5.3	4.7	4.0

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	58.5	58.5	58.5
FII	21.6	22.5	23.0
DII	14.3	13.7	13.3
Others	5.4	5.1	5.0

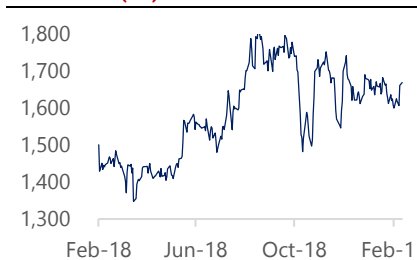
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
AIA Engineering	0.6	(4.7)	(2.7)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.1680

TARGET RS.1700

REDUCE

AIA reported Q3FY19 revenues in line with our estimate driven by the mining division. Margin expanded y/y on improved realizations and volumes.

### Key Highlights

- AIA reported net revenue at Rs 7.3 Bn (+27% y/y) driven by over 23% volume growth in mining division.
- Operating margin, reported 22.7% y/y in the quarter was driven by operating leverage.

### Valuation & Outlook

We value AIA Engineering at PER 25x FY20 earnings and arrive at an unchanged target price of Rs 1700 (unchanged). We move recommendation to 'Reduce' from 'SELL' earlier on company's stock.

### Consolidated Financials Q3FY19

(Rs mn)	Q3FY19	Q3FY18E	YoY%	Q2FY19	QoQ (%)
<b>Net Sales</b>	<b>7,264</b>	<b>5,722</b>	<b>27.0</b>	<b>7,406</b>	<b>(1.9)</b>
Inc/dec in stock	(1,127)	(182)		(467)	
Raw materials	3,662	2,243	63.2	3,544	3.3
Staff cost	323	288	11.9	310	4.1
Other exp.	2,755	2,104	30.9	2,541	8.4
Total exp.	5,612	4,453	26.0	5,928	(5.3)
<b>EBIDTA</b>	<b>1,652</b>	<b>1,268</b>	<b>30.3</b>	<b>1,478</b>	<b>11.8</b>
Other income	289	321	(10.0)	482	(40.0)
Depreciation	216	179	20.8	181	19.7
<b>EBIT</b>	<b>1,726</b>	<b>1,411</b>	<b>22.3</b>	<b>1,780</b>	<b>(3.1)</b>
Interest	20	11	88.0	17	19.4
<b>PBT</b>	<b>1,705</b>	<b>1,400</b>	<b>21.8</b>	<b>1,763</b>	<b>(3.3)</b>
Tax & deferred tax	413	235	75.7	547	(24.6)
<b>PAT</b>	<b>1,292</b>	<b>1,165</b>	<b>10.9</b>	<b>1,215</b>	<b>6.3</b>
<b>Adj EPS</b>	<b>13.7</b>	<b>12.4</b>	<b>10.9</b>	<b>12.9</b>	<b>6.3</b>
Raw Materials / Sales (%)	34.9	36.0		41.5	
EBITDA (%)	22.7	22.2		20.0	
Tax (%)	24.2	16.8		31.1	

Source: Company

In Q3FY19, AIA Engineering Ltd reported volume sale of 59235 MT against 51392 MT in Q3FY18 and 61695 MT of mill internals in Q2FY19. Growth in the quarter was driven by mining division (volumes up 23% y/y), reported at 40084 MT. Company reported net revenue at Rs 7.3 Bn (+27% y/y).

Operating margin, reported 22.7% y/y in the quarter was driven by operating leverage. Employee cost in Q3FY19 stood at Rs 323 mn (+11.9% y/y) in the quarter.

We believe that the company is well poised to benefit from the growth in the high chrome mill internals mining space. This when viewed in light of the fact that the company has been incurring additional costs to capture new market in the mining space, makes us more confident about our FY20 projections getting achieved. Incremental volume growth in mining estimated to be in the range of 40,000-50,000 MT per year.

Ruchir Khare

ruchir.khare@kotak.com

+91 22 6218 6431

AIA has commissioned phase I of the capex plan increasing capacity to 34000 MT. Phase II shall incur through FY19. Management maintained capex guidance at Rs 5 Bn in FY19 and Rs 3 Bn in FY20.

Management highlighted that the opportunity landscape over medium to long term horizon remaining unchanged with the total addressable annual mining replacement market estimated at around 3 million TPA coupled with a very low penetration of high chrome consumable wear parts in mining. Bulk of future growth is expected to come from exports, mainly in mining segment. Company reported order backlog at Rs 6.68 Bn at the end of 9MFY19.

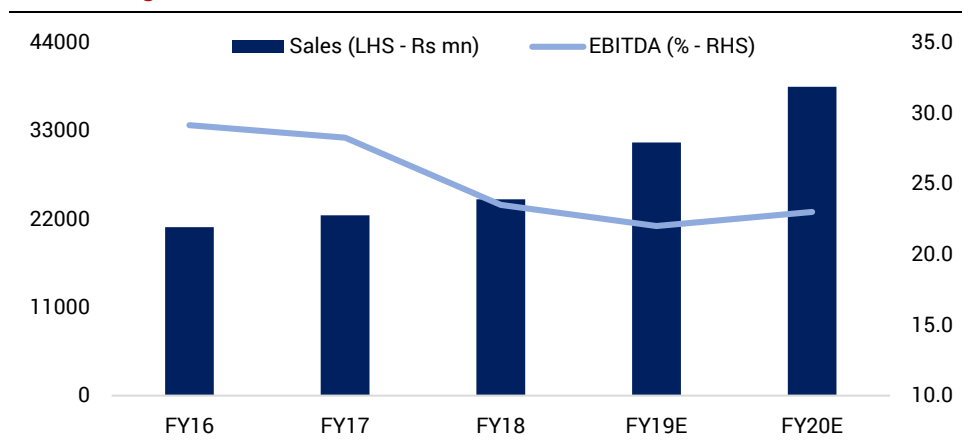
Higher tax rate in Q3FY19 (tax expense at Rs 413 mn in Q3FY19) resulted in the PAT of c. Rs 1.3 Bn in the quarter.

### Financials

We believe that company would potentially expand margin in FY20 driven by operating leverage. We also believe that the promotional prices in mining to gain market share and increase in input prices would incur downside pressure on margins in near term.

We expect sales to grow at 25% CAGR between FY18-20 from Rs 24 Bn in FY18 to Rs 37.9 Bn in FY20. In our projections, we build EBITDA margin improvement from 22.5% in FY20.

### EBITDA margin



Source: Kotak Securities – Private Client Research

### Valuation and Recommendation

We value AIA Engineering at PER 25x FY20 earnings and arrive at an unchanged target price of Rs 1700 (unchanged). We move recommendation to 'Reduce' from 'SELL' earlier on company's stock.

### Company background

AIA Engineering is Ahmedabad based company, specializes in design, development, manufacturing and servicing of high chrome wear, corrosion and abrasion resistant casting used in cement, mining and thermal power generation industries.

Company has successfully build market in the mining space over the period of last ten years and currently has presence in over 40 countries.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>22,460</b>	<b>24,452</b>	<b>31,542</b>	<b>38,482</b>
% change yoy	7.0	8.9	29.0	22.0
<b>EBITDA</b>	<b>6,347</b>	<b>5,357</b>	<b>6,939</b>	<b>8,851</b>
% change yoy	8.7	(1.5)	29.9	22.0
Depreciation	725	656	780	850
<b>EBIT</b>	<b>5,622</b>	<b>4,701</b>	<b>6,159</b>	<b>8,001</b>
% change yoy	3.3	(16.4)	31.0	29.9
Net Interest	45	69	77	75
Earnings Before Tax	6,622	5,850	7,300	9,326
% change yoy	3.4	(16.9)	31.3	30.3
Tax	2,048	1,414	2,263	2,891
as % of EBT	30.9	24.2	31.0	31.0
<b>Recurring PAT</b>	<b>4,574</b>	<b>4,436</b>	<b>5,037</b>	<b>6,435</b>
% change yoy	(1.4)	(3.0)	13.6	27.7
Shares outstanding (m)	94.3	94.3	94.3	94.3
<b>EPS (Rs)</b>	<b>48.5</b>	<b>47.0</b>	<b>53.4</b>	<b>68.2</b>
DPS (Rs)	4.7	5.6	6.8	8.1
CEPS	56.1	53.9	61.6	77.1

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	6,622	5,850	7,300	9,326
Depreciation	725	656	780	850
Current liabilities incl provisos	1,202	626	(643)	570
inc in inventory	(3,256)	(193)	(1,380)	(1,521)
inc in sundry Debtors	(948)	(1,053)	(1,764)	(1,711)
inc in advances	(31)	(4)	30	-
Tax Paid	(2,048)	(1,414)	(2,263)	(2,891)
Other Adjustments	2,236	(1,019)	(383)	(570)
<b>Net cash from operations</b>	<b>4,532</b>	<b>3,453</b>	<b>1,648</b>	<b>4,053</b>
Purchase of fixed Assets	(1,128)	(671)	(1,780)	(1,850)
Net investments	1,347	1,564	-	-
<b>Net cash from investing</b>	<b>(2,167)</b>	<b>(2,676)</b>	<b>(1,780)</b>	<b>(1,850)</b>
Change in Borrowings	205	(74)	-	-
Dividend Paid	(443)	(531)	(638)	(765)
<b>Net Cash from financing</b>	<b>(238)</b>	<b>(605)</b>	<b>(638)</b>	<b>(765)</b>
Net Cash Flow	2,128	172	(769)	1,438
<b>Cash at the end of year</b>	<b>2,477</b>	<b>2,650</b>	<b>1,880</b>	<b>3,318</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	2,478	2,650	1,880	3,318
Accounts receivable	4,961	6,014	7,778	9,489
Inventories	5,341	5,534	6,913	8,434
Other current assets	1,698	1,829	2,593	3,163
<b>Current Assets</b>	<b>11,999</b>	<b>13,377</b>	<b>17,284</b>	<b>21,086</b>
Net fixed assets	6,949	7,505	8,505	9,505
Investments	9,596	10,919	10,919	10,919
Goodwill (intangible assets)	218	219	219	219
Other non-current assets	3139	3566	2416	3854
<b>Total Assets</b>	<b>31,901</b>	<b>35,586</b>	<b>39,343</b>	<b>45,583</b>
Debt	1,158	1,231	1,231	1,231
Equity & reserves	27,173	30,093	34,493	40,163
Other liabilities	961	1,026	1,026	1,026
<b>Current Liabilities</b>	<b>2,609</b>	<b>3,236</b>	<b>2,593</b>	<b>3,163</b>
<b>Total Liabilities</b>	<b>31,901</b>	<b>35,586</b>	<b>39,343</b>	<b>45,583</b>
BVPS (Rs)	288	319	366	426

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	28.3	23.5	22.0	23.0
EBIT margin (%)	25.0	19.2	19.5	20.8
Net profit margin (%)	20.4	18.1	16.0	16.7
Receivables (days)	81	90	90	90
Inventory (days)	87	83	80	80
Sales / Net Fixed Assets (x)	0.8	0.8	1.0	1.1
Interest coverage (x)	125	68	80	107
Debt/ equity ratio	0.0	0.0	0.0	0.0
ROE (%)	19.2	15.5	15.6	17.2
ROCE (%)	13.8	10.7	11.3	12.9
EV/ Sales	7.1	6.5	5.1	4.1
EV/EBITDA	25.1	29.8	23.0	18.0
Price to earnings (P/E)	35.1	36.2	31.9	25.0
Price to book value (P/B)	5.9	5.3	4.7	4.0
Price to cash earnings	30.4	31.6	27.7	22.1

Source: Company, Kotak Securities – Private Client Research



## Result Update

# ENGINEERS INDIA LTD (EIL)

### Stock Details

Market cap (Rs mn)	:	69005
52-wk Hi/Lo (Rs)	:	178 / 100
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	1,637,114
Shares o/s (mn)	:	632

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	17,876	24,812	28,533
Growth (%)	23.4	38.8	15.0
EBITDA	4,131	3,764	5,747
EBITDA margin (%)	23.1	15.2	20.1
PAT	3,779	4,007	5,081
EPS	6.0	6.3	8.0
EPS Growth (%)	16.3	6.0	26.8
BV (Rs/share)	35.9	36.1	36.4
Dividend/share (Rs)	4.0	5.1	6.4
ROE (%)	15.0	17.6	22.2
ROCE (%)	15.3	15.4	23.8
P/E (x)	18.2	17.2	13.6
EV/EBITDA (x)	10.7	13.0	8.7
P/BV (x)	4.3	4.3	4.3

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	52.0	52.0	52.0
FII	6.5	4.4	4.3
DII	26.5	26.9	27.3
Others	15.0	16.6	16.4

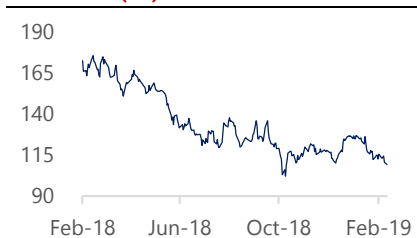
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Engineers India	(11.5)	(10.4)	(13.4)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.110

TARGET RS.155

BUY

EIL Q3FY19 result missed our estimates on margin front affected by higher execution in LSTK (Lump sum turnkey division) division. Order inflows remained strong in 9MFY19; current order backlog reported at record Rs 107.8 Bn imply four to five years of revenue visibility.

### Key Highlights

- Revenue grew 21.9% y/y, reported at Rs 5.7 Bn in Q3FY19 driven by both PMC and LSTK (Lumpsum turnkey projects) division. EBITDA margin contracted to 16.4% vis-à-vis 28.5% in Q3FY18.
- In Q3FY19, PMC division reported sales at Rs 3.4 Bn (declines 10.9% y/y). EBIT margin for the segment contracted to 29.7% vis-à-vis 37.4% in Q3FY18. LSTP division revenues grew substantially to Rs 2.3 Bn in Q3FY19 vis-à-vis Rs 889 mn in Q3FY18. EBIT margin in LSTK division reported at c.6.1% in the quarter.

### Valuation & Outlook

We believe that EIL stock is trading at cheap valuation at PER 13.6x FY20 core earnings. We value core FY20 earnings at PER 20x and maintain BUY with unchanged target price of Rs 155.

### Quarterly financials

(Rs mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Revenues</b>	<b>5770</b>	<b>4734</b>	<b>21.9</b>	<b>6814</b>	<b>(15.3)</b>
Employee expenses	1972	1890	4.3	1834	7.5
Sub-Contract Payments	1018	551	84.7	1298	(21.5)
Construction Material	1282	248	415.9	2014	(36.4)
Other expenses	550	696	(21.0)	753	(27.0)
Total Expenses	4822	3386	42.4	5899	(18.3)
<b>EBITDA</b>	<b>949</b>	<b>1348</b>	<b>(29.7)</b>	<b>915</b>	<b>3.7</b>
Other income	519	393	32.0	614	(15.6)
Depreciation	53	59	(9.8)	57	(6.8)
<b>EBIT</b>	<b>1414</b>	<b>1682</b>	<b>(16.0)</b>	<b>1472</b>	<b>(3.9)</b>
Net Interest	4	1		4	
<b>PBT</b>	<b>1410</b>	<b>1681</b>	<b>(16.1)</b>	<b>1468</b>	<b>(3.9)</b>
Total tax	491	597	(17.9)	491	0.0
<b>PAT</b>	<b>920</b>	<b>1084</b>	<b>(15.2)</b>	<b>978</b>	<b>(5.9)</b>
<b>EPS (Rs)</b>	<b>1.5</b>	<b>1.7</b>	<b>(15.2)</b>	<b>1.5</b>	<b>(5.9)</b>
EBITDA (%)	16.4	28.5		13.4	22.5
Tax Rate (%)	34.8	35.5		33.4	4.1

Source: Company

### Result Highlights

Revenue grew 21.9% y/y, reported at Rs 5.7 Bn in Q3FY19 driven by both PMC and LSTK (Lumpsum turnkey projects) division. EBITDA margin contracted to 16.4% vis-à-vis 28.5% in Q3FY18 due to 1/ increased proportion of LSTK revenues and 2/ provision write back in 3QFY18 (reported at Rs.373 bn in 9MFY18).

In Q3FY19, PMC division reported sales at Rs 3.4 Bn (declines 10.9% y/y). EBIT margin for the segment contracted to 29.7% vis-à-vis 37.4% in Q3FY18. Within PMC division, domestic and overseas business accounted to revenues of Rs 2.9

Ruchir Khare

ruchir.khare@kotak.com

+91 22 6218 6431

Bn and c. Rs 475 mn respectively. LSTP division revenues grew substantially to Rs 2.3 Bn in Q3FY19 vis-à-vis Rs 889 mn in Q3FY18. EBIT margin in LSTK division reported at c.6.1% in the quarter. Other income reported at Rs 518 mn in the quarter against Rs 393 mn in Q3FY18.

### Segmental table

	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Segment Revenues (Rs mn)</b>					
Consultancy & Engg projects (PMC)	3425	3845	(10.9)	3323	3.1
Lumpsum Turnkey Projects (LSTK)	2345	889	163.8	3490	(32.8)
<b>EBIT (Rs mn)</b>					
Consultancy & Engineering projects	1019	1440	(29.2)	965	5.6
Lumpsum Turnkey Projects	143	108	32.7	175	(18.3)
<b>EBIT Margins (%)</b>					
Consultancy & Engineering projects	29.7	37.4		29.0	
Lumpsum Turnkey Projects	6.1	12.1		5.0	





Source: Company

EIL's order backlog, reported at Rs 107.8 Bn at the end of 9MFY19 (+29.9% y/y). EIL won Rs 50 Bn order from HPCL for execution of Barmer Rajasthan Greenfield refinery project. The order is split into Rs 11.8 Bn of PMC (Project management & consulting) job and balance into LSTK (Lump sum turnkey project). As per management, execution of this order would start in the Q4FY19 and major revenue shall flow in FY20/21.

Currently, PMC order book amounts to Rs 46.1 Bn (42.8% of total order book) and turnkey orders amounts to Rs 61.7 Bn. 9MFY19, order inflows remained robust, reported at Rs 57.8 Bn- Rs 14.8 Bn in the consulting division and Rs 43 Bn in the LSTK division.

Management has guided for an order inflow of c. Rs 18 Bn in FY20 mainly in PMC division. We note that the order pipeline remains strong, potentially arising from greenfield/brownfield expansion by leading refineries.

### Key orders secured in 9MFY19

Q3 & 9M FY 18-19 : Salient Orders Secured					
	Project scope	Client	Contract Value (Rs. Million)	Award Date	Completion Date
<b>Domestic</b>					
<b>TURNKEY</b>					
	Execution of Residual Utilities and Offsites for Rajasthan Refinery Project on Open Book Estimate(O&B) Basis ( <b>Contract Value revised for including estimated commissioning man-months – Differential value</b> )	HPCL Rajasthan Refinery Limited (HRRL)	130	Q2, FY18 -19	Q3 FY22-23
<b>CONSULTANCY</b>					
	Engineering Review, Procurement & Construction Management Services for Phase-II of HP Green R&D Centre at Bengaluru	Hindustan Petroleum Corporation Limited (HPCL)	143	Q3, FY18 -19	Q1 FY21-22
RAJASTHAN GOVT.	Consultancy for Third Party Assessment for Establishment of Bhamashah State Data Centre (BSDC), at Jaipur (Change Order)	Department of Information Technology	107	Q1, FY17 -18	Q3 FY18-19
<b>Overseas</b>					
<b>CONSULTANCY</b>					
	PMC & EPCM Services for Dangote Refinery Project (Change Order No. 8)	Dangote Oil Refining Company Limited	168	Q3, FY18 -19 (Change Order Award Date)	Q3, FY 20-21
	Design and Detailed Engineering for Project Engineering Services (Change Order in existing rate contract)	Bahrain National Gas Company (BANAGAS)	94	Q3, FY18 -19 (Change Order Award Date)	Q3, FY 20-21

Delivering Excellence through People

17

Source: Company

**Potential orders from the following Hydrocarbon expansion plans over 4QFY19-20**

Project	Client	Scope	Estimated Consultancy Jobs (Rs bn)
Bina refinery expansion	BPCL	Expansion from 6 mn MT to 7.8 mn MT	1 to 1.25
Bina refinery expansion	BPCL	9 mn MT Grassroot expansion	9 to 10
Kochi propylene derivatives	BPCL	Propylene derivatives	2.5 to 5
Bhatinda Expansion	HPCL	a) Low cost initial expansion. B) Doubling of capacity. C) Petrochemical integration.	4 to 4.5
Numaligarh Expansion	BPCL		Na
Barauni Refinery	IOC	Expansion by 6 mn MT and petrochemical integration	Na
West Coast refinery	IOC	BPCL, HPCL, IOC	30

Source: Company, Kotak Securities – Private Client Research

**Acquisition of PDIL to bring synergy in the fertilizer business; management dismisses the threat of misuse of its cash reserves**

EIL has recently made a bid for acquiring 100% stake in another public undertaking-PDIL Ltd. Currently PDIL is under the Ministry of Chemicals & Fertilizers. Founded in 1978, PDIL provides design engineering and consultancy services. It serves fertilizer and allied chemical industries, oil and gas sector, power and infrastructure sectors in India and internationally.

Without divulging the valuation details, EIL management has posed confidence in PDIL being value accretive in the long term. As per management, PDIL has an efficient employee base and EIL could enhance PDIL's reach into new geographies.

EIL other investments till date includes: 1/ Rs 3.4 Bn for 26% stake in Ramagundam Fertilizer plant (as of date Rs 2.4 Bn in already infused) 2/ Rs 600 mn in oil blocks (Rs 220 mn written off against this investment). Management stated that the company is not looking for major acquisitions in the near term and has reassured that the inorganic initiatives would be in line with company's core operations in-Hydrocarbons, Fertilizers, Water Management and Smart Cities.

We believe that the street has been skeptical about company's cash reserves (amounting to c. Rs 25 Bn), getting diverted towards recapitalization of other government owned sick companies. Management, however has dismissed any such threat to its cash reserves and has maintained that the company shall maintain its dividend payout at current 80% level.

**Valuation and Recommendation**

We believe that EIL stock is trading at cheap valuation at PER 13.6x FY20 core earnings. We value core FY20 earnings at PER 20x and maintain BUY with unchanged target price of Rs 155.

**Valuation Table**

	Rs mn (FY20)
Core PAT	3,688
PER (x)	20
Net Cash	24816
Target valuation	98585
Target Valuation (Target Price) per share (Rs)	155

Source: Kotak Securities – Private Client Research

**About the company**

Engineers India Ltd (EIL) is a leading global engineering consultancy and EPC company. Established in 1965, EIL provides engineering consultancy and EPC services principally focused on the oil & gas and petrochemical industries. The Company has also diversified into sectors like infrastructure, water and waste management, solar & nuclear power and fertilizers to leverage its strong technical competencies and track record.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>14,486</b>	<b>17,876</b>	<b>24,812</b>	<b>28,533</b>
% change yoy	(4.1)	23.4	38.8	15.0
<b>EBITDA</b>	<b>3,022</b>	<b>4,131</b>	<b>3,764</b>	<b>5,747</b>
% change yoy	53.3	36.7	(8.9)	52.7
Depreciation	225	238	232	236
<b>EBIT</b>	<b>2,797</b>	<b>3,892</b>	<b>3,531</b>	<b>5,511</b>
% change yoy	62.3	39.2	(9.3)	56.1
<b>Net Interest</b>	<b>32</b>	<b>6</b>	<b>6</b>	<b>6</b>
Other Income	2236	1795	2456	2079
Earnings Before Tax	5,001	5,682	5,981	7,584
% change yoy	16.5	13.6	5.3	26.8
Tax	1,751	1,902	1,974	2,503
as % of EBT	35.0	33.5	33.0	33.0
Extraordinary Income	0	0	0	0
<b>Recurring PAT</b>	<b>3,250</b>	<b>3,779</b>	<b>4,007</b>	<b>5,081</b>
% change yoy	10.0	16.3	6.0	26.8
<b>EPS (Rs)</b>	<b>5.1</b>	<b>6.0</b>	<b>6.3</b>	<b>8.0</b>
DPS (Rs)	3.2	4.0	5.1	6.4
CEPS	5.5	6.4	6.7	8.4

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	5,001	5,682	5,981	7,584
Depreciation	225	238	232	236
Current liabilities incl provisions	2,071	6,185	(3,302)	1,414
Increase in inventory	10	-	-	-
Increase in sundry Debtors	(67)	(1,619)	(805)	(938)
Increase in advances	14	4	(7)	(8)
Other Current Assets	(121)	(487)	(1,857)	(1,020)
Tax Paid	(1,751)	(1,902)	(1,974)	(2,503)
Other Adjustments	0	0	0	0
<b>Net cash from operations</b>	<b>5,382</b>	<b>8,101</b>	<b>(1,731)</b>	<b>4,766</b>
Purchase of fixed Assets	(55)	(212)	(382)	(386)
Net investments	(4,943)	2,967	1	(500)
Other investment activities	(655)	(285)	1272	(1)
<b>Net cash from investing</b>	<b>(5,652)</b>	<b>2,469</b>	<b>891</b>	<b>(887)</b>
Change in Borrowings	0	0	0	0
Dividend Paid	(2,438)	(3,048)	(3,866)	(4,903)
Issue of common equity	-	(6,500)	-	-
<b>Net Cash from financing act</b>	<b>(3,239)</b>	<b>(8,860)</b>	<b>(3,866)</b>	<b>(4,903)</b>
Net Cash Flow	(3,509)	1,711	(4,707)	(1,024)
<b>Cash at the end of year</b>	<b>23,105</b>	<b>24,816</b>	<b>20,109</b>	<b>19,085</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	23,105	24,816	20,109	19,085
Accounts receivable	3,831	5,449	6,254	7,192
Loans & advances	108	103	111	118
Other current assets	4,454	4,940	6,798	7,817
Current Assets	8,392	10,493	13,162	15,128
Net fixed assets	2,231	2,204	2,354	2,504
Investments	5,695	2,728	2,727	3,227
Other non-current assets	3763	4061	2790	2791
<b>Total Assets</b>	<b>43,185</b>	<b>44,303</b>	<b>41,142</b>	<b>42,735</b>
Debt	-	-	-	-
Equity & reserves	27,760	22,679	22,820	22,999
Other liabilities	211	224	224	224
Current Liabilities	15,216	21,400	18,099	19,513
<b>Total Liabilities</b>	<b>43,186</b>	<b>44,303</b>	<b>41,142</b>	<b>42,735</b>
BVPS	43.9	35.9	36.1	36.4

Source: Company, Kotak Securities – Private Client Research; \* FY18 Equity & reserves (and BVPS) are adjusted for the equity buy back

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	20.9	23.1	15.2	20.1
EBIT margin (%)	19.3	21.8	14.2	19.3
Net profit margin (%)	22.4	21.1	16.2	17.8
Adjusted EPS growth (%)	0.1	0.2	0.1	0.3
Receivables (days)	96.5	111.3	92.0	92.0
Sales / Net Fixed Assets (x)	5.5	6.5	8.8	9.9
Debt/ equity ratio	-	-	-	-
ROE (%)	11.6	15.0	17.6	22.2
ROCE (%)	9.9	15.3	15.4	23.8
EV/ Sales	3.2	2.5	2.0	1.7
EV/EBITDA	15.1	10.7	13.0	8.7
Price to earnings (P/E)	21.2	18.2	17.2	13.6
Price to book value (P/B)	3.6	4.3	4.3	4.3
Price to cash earnings	19.8	17.1	16.2	13.0

Source: Company, Kotak Securities – Private Client Research

## Result Update

## ARVIND LTD

### Stock Details

Market cap (Rs mn)	:	20547
52-wk Hi/Lo (Rs)	:	157 / 78
Face Value (Rs)	:	10
3M Avg. daily vol (nos)	:	6,027,913
Shares o/s (mn)	:	259

Source: Bloomberg

### Financial Summary - Consolidated

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	67937	72926	80004
Growth (%)	NA	7.3	9.7
EBITDA	6741	7381	8897
EBITDA margin (%)	9.9	10.2	11.2
PAT	2808	3439	4272
EPS	10.9	13.3	16.5
EPS Growth (%)	NA	22.5	24.2
Book value (Rs/share)	104	114	129
Dividend per share (Rs)	2.4	2.4	2.4
ROCE (%)	8.4	9.1	11.3
ROE (%)	10.5	12.5	14.7
P/E (x)	7.4	6.0	4.8
EV/EBITDA (x)	7.0	6.6	5.6
P/BV (x)	0.8	0.7	0.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	43.1	43.0	42.9
FII	20.8	21.6	27.1
DII	13.2	16.7	13.8
Others	22.9	18.7	13.8

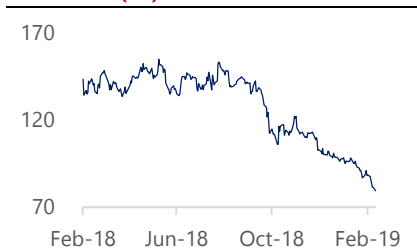
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Arvind Ltd	(18.6)	(29.7)	(42.8)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Pankaj Kumar

pankajr.kumar@kotak.com

+91 22 6218 6434

### PRICE RS.80

### TARGET RS.110

### BUY

Arvind reported subdued performance in Q3FY19 due to challenging competitive environment in denim business.

### Key Highlights

- Consolidated Net Sales declined by 0.6% yoy to Rs 16.8 bn due to 7% yoy decline in textiles business segment, while advance material business segment grew by 32% yoy. Textiles segment faced challenges due to decline in exports as some of its large clients took inventory correction.
- EBITDA margins for the quarter declined by 120 bps yoy to 8.9% driven by 365 bps yoy decline in textiles margin due to lower sales, higher pre-operative expenses in new garments manufacturing plants and write off related to Arvind Stores.
- The company has cut FY19E revenue growth guidance from 10% to 5% yoy and targets for 30 bps yoy (Vs 100 bps earlier) improvement in EBITDA margins in the year.

### Valuation & outlook

- We have downgraded our revenue and margins estimates factoring in challenging business environment in denim business.
- The stock is presently trading at FY19E/20E PE of 6.0x/4.8x based on FY19E/FY20E EPS of Rs. 13.3/16.5 respectively. We maintain BUY recommendation on the stock with revised target price of Rs 110 (earlier target price of Rs 130), valuing the stock at FY20E EV/EBITDA of 6.5x.

### Quarterly performance table

Year to March (INR mn)	Q3FY19	Q3FY18	% Chg	Q2FY19	% Chg
<b>Net Revenues</b>	<b>16,803</b>	<b>16,910</b>	<b>(0.6)</b>	<b>17,929</b>	<b>(6.3)</b>
Raw Materials Cost	8,071	7,937	1.7	7,857	2.7
Gross Profit	8,732	8,974	(2.7)	10,072	(13.3)
Employee Expenses	2,195	2,141	2.5	2,328	(5.7)
Other Expenses	5,040	5,133	(1.8)	5,922	(14.9)
Operating Expenses	15,306	15,210	0.6	16,106	(5.0)
<b>EBITDA</b>	<b>1,496</b>	<b>1,700</b>	<b>(12.0)</b>	<b>1,823</b>	<b>(17.9)</b>
EBITDA margin	8.9%	10.1%		10.2%	
Depreciation	583	546	6.8	588	(0.7)
Other income	266	137	94.8	231	15.3
Net finance expense	561	441	27.3	539	4.1
<b>Profit before tax</b>	<b>618</b>	<b>850</b>	<b>(27.3)</b>	<b>928</b>	<b>(33.3)</b>
Exceptional/Others	193	100	93.9	132	45.9
<b>Profit before tax (aft Exp)</b>	<b>425</b>	<b>750</b>	<b>(43.3)</b>	<b>795</b>	<b>(46.5)</b>
Provision for taxes	19	51	(62.5)	234	(91.9)
<b>Reported net profit</b>	<b>406</b>	<b>700</b>	<b>(41.9)</b>	<b>561</b>	<b>(27.6)</b>
<b>As % of net revenues</b>					
COGS	48.0	46.9		43.8	
Employee cost	13.1	12.7		13.0	
Other Expenses	30.0	30.4		33.0	
Operating expenses	91.1	89.9		89.8	
EBITDA	8.9	10.1		10.2	
Reported net profit	2.4	4.1		3.1	
Tax rate (% of PBT)	3.1	6.0		25.2	

Source: Company



### **Q3FY19 revenue declined by 0.6%**

Q3FY19 consolidated net sales declined by 0.6% to Rs 16.8 bn due to 7% yoy decline in textiles business segment while advance material business segment grew by 32% yoy. Textiles segment declined due to 21% yoy decline in denim volume while garments segment grew by 15% on yoy basis. Decline in denim business is due to decline in exports as some of its large clients took inventory correction. Even in domestic market the volume was flattish. Denim industry in India is facing challenges due to a) over supply, b) aggression in pricing and c) higher credit offered by some of its peers (who have surplus capacity). Under this scenario, the company took decision to hold prices and forego volume which impacted denim sales.

### **EBITDA margins declined by 120 bps yoy**

EBITDA margins for the quarter declined by 120 bps yoy to 8.9% driven by 365 bps yoy decline in textiles margin due to lower sales volume in Denim, higher pre-ops in new manufacturing plants and write off related to Arvind Stores. The denim business took a volume hit on exports side due to destocking by major clients. In textiles garments business, the company is undergoing through expansion phase and is increasing capacity from 30 mn pcs to 90 mn pcs per annum in the next three years. The preoperative expenses related to garment expansion also negatively impacted margins in the quarter. Further, the company is restructuring fabric retail business under brand Arvind Store. It is shifting the model from company owned store to franchisee owned. Hence, there are certain write offs associated to the same which also impacted margins in the quarter.

EBITDA margins in Advance materials segment continued to improve and was at 10.2% (Vs -3% yoy) in the quarter. The margin in the business improved on account of a) operating leverage as mature part of portfolio started to hit scale, b) improved realization from higher value added products and c) tie-up with a European firm for Cured-In-Place-Pipe technology yielding positive results. In the quarter, the company reported exceptional items of Rs 185 mn related to write-off of GST credits due to change in regulations. Further, there was retrenchment compensation of Rs 10 mn and devaluation in value of investment in subsidiary of Rs. 50 mn. Due to lower margin and exceptional items, PAT for the quarter declined by 42% yoy to Rs 406 mn.

### **Expansion in garmenting based on verticalization strategy**

The company has adopted verticalization strategy in order to move up in value chain by increasing focus on garmenting business. Over the longer period of next 5 years, Arvind aims to convert ~50% of its fabrics into garments from ~10% in FY18. In order to increase garmenting, the company is increasing its garment capacity by 3x to 90 mn pcs per annum in the next three years. The company is expanding garment manufacturing business by setting up units in states like Jharkhand, AP and Gujarat where government is giving labour subsidy (upto 50% labour cost for initial 5 years) to encourage employment. This will save cost for the company particularly in the initial phase of expansion. It has also setup garmenting unit in Ethiopia where the labour cost is 50% lower and enjoys zero duty for exports to the US and Europe and helps in competing against Bangladesh and Sri Lanka. The company intends to invest ~Rs 15 bn in order to expand capacity in textiles and advance material businesses in the next three years. This includes Rs 8 bn investment for expanding garment facilities (Rs 7 bn in India and Rs 1 bn in Ethiopia) ~Rs 2 bn in advance materials, ~Rs 1-1.5 in activewear, ~Rs 1 bn in specialized garment, etc.

### Growth opportunity in advance materials business

The company has reported strong performance in advance material in 9MFY19. The segment is expected to grow at faster pace in the longer run and has potential to achieve Rs 15 bn revenue from Rs 4.8 bn in FY18. The company is catering to various segments under this division. This includes human protection products (such as firefighting jackets, bullet proof jackets, etc), composite products for industries (such as railway coaches, automobile industry), belting for industries, etc.

### Cut FY19E guidance due to weakness in textiles segment

The company has cut revenue growth guidance for FY19E to 5% from earlier guidance of 10% with slower growth rate of 2% (Vs 5-6% earlier) in textiles segment due to lower denim sales and 3-6 months delay in new garment manufacturing projects. On the other hand, Advance materials segment is expected to grow at 24% on yoy. The company has cut margins improvement guidance to 30 bps Vs 100bps improvement estimated earlier. This is on account of 1% decline in margins of textiles business. However sharp improvement is expected in margins of advance material segment (from -1% in FY18 to 9% in FY19E). Further, spillover of water projects to Q1FY20 will also affect the revenue and margins for FY19.

### Other highlights

- As per company, likely listing of Arvind Fashions & Anup Engineering is expected later in February 2019.
- The company has net debt of Rs 28.32 bn at the end of Q3FY19 and is expected to remain the same in FY19 end.
- The company will be incurring Rs 4-4.5 bn in FY19E and it is expected to remain the same in FY20E as well.

### Outlook and valuation

We have updated our estimates based on actual segmental breakup for Arvind Ltd post demerger as given by the company which includes textiles, Advance materials and others. We are giving the summary of financial estimates for FY19E and FY20E and will give the detailed financials post FY19E results. We will come out with separate note on demerged businesses Arvind Fashions and Anup Engineering later post listing.

We have downgraded our revenue and margins estimates factoring in challenging business environment in denim business. We expect Arvind's revenue and PAT to grow at a CAGR of 8.2% and 23.4%, respectively in FY18-20E. The stock is presently trading at FY19E/20E PE of 6.0x/4.8x based on FY19E/FY20E EPS of Rs. 13.3/16.5, respectively. We maintain BUY recommendation on the stock with revised target price of Rs 110 (earlier target price of Rs 130), valuing the stock at FY20E EV/EBITDA of 6.5x.

### Revision in estimates

	Revised		Previous		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	72489	79567	71879	80065	1%	-1%
EBITDA	7,381	8,897	8050	9288	-8%	-4%
EBITDA Margin%	10.2%	11.2%	11.2%	11.6%	-100 bps	-40 bps

Source: Kotak Securities - Private Client Research

### **Company Background**

Arvind Ltd, founded in 1931 by Lalbhai family, is a leading textiles company with interest in Textiles, Advance materials, etc. The company manufactures and sells about 300 million meters (mn mtr) of fabrics and over 30 mn pieces of garments (FY18). In Advance materials business, the company is catering to various segments under this division. This includes human protection products such as firefighting jackets, bullet proof jackets, etc. The company has demerged branded apparels business under Arvind Fashions Ltd which own brands such as Flying Machine, Colt, Ruggers and Excalibur, etc. It also has a portfolio of licensed brands which includes US Polo Association, Arrow, Tommy Hilfiger (TH), Gap, Calvin Klein (CK), Hanes, Gant, Nautica, Izod, Ed Hardy, Elle, Cherokee, The Children's Place, Aeropostale, etc. It has also demerged engineering business under Anup Engineering which designs and manufactures critical process equipment for petrochemical, fertilizer, power and other process industries.

## Result Update

### Stock Details

Market cap (Rs mn)	:	40316
52-wk Hi/Lo (Rs)	:	237 / 154
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	130,952
Shares o/s (mn)	:	258

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	13,235	12,540	14,077
Growth (%)	34.8	(5.3)	12.3
EBITDA	5,327	5,014	6,103
EBITDA margin (%)	40.2	40.0	43.4
PAT	4,220	3,974	4,625
EPS	16.4	15.4	18.0
EPS Growth (%)	37.3	-5.8	16.4
BV (Rs/share)	109	117	129
Dividend/share (Rs)	5.5	5.5	5.5
ROE (%)	15.1	13.1	13.9
ROCE (%)	13.0	11.2	11.9
P/E (x)	9.6	10.2	8.8
EV/EBITDA (x)	3.6	3.9	2.8
P/BV (x)	1.5	1.3	1.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	65.7	65.7	65.6
FII	4.3	3.7	3.6
DII	13.6	13.7	10.2
Others	16.4	16.9	20.6

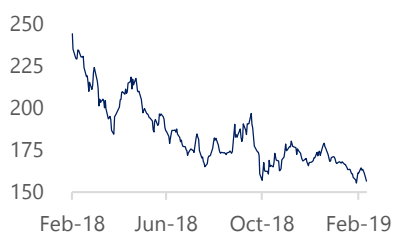
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
MOIL Ltd	(6.9)	(11.7)	(9.9)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

## MOIL LTD

PRICE RS.157

TARGET RS.200

BUY

MOIL Q3FY19 performance was above our estimates due to higher than expected realisation and lower tax rate. Blended ore realizations stood at Rs11,080/tonne, up 14.4% YoY. However, prices are likely to remain subdued in the coming quarters, thereby restricting earnings upside

### Key Highlights

- ❑ Manganese ore shipments declined 3.4%/9.6% YoY/QoQ to 282kt (production volume stood at 360kt). Given the subdued demand, the MOIL has added 88,000 tonnes of inventory in 9MFY19 which it plans on offloading in the subsequent quarters as demand environment improves.
- ❑ PAT during the quarter stood at Rs1.20 bn, higher than our estimate, due to higher operating profit and lower tax rate.
- ❑ The company has taken price cuts of 10% and 5% in Jan and Feb which will impact realizations in 4QFY19 and overall profitability.

### Valuation & outlook

We believe, manganese ore prices to remain subdued due to the weak steel price outlook and the same would reflect on the demand of the manganese ore in the near term. The company has revised its prices downwards, which will impact the realisation in the coming quarter. Factoring the same, we have revised our earnings downwards to Rs15.4 (earlier Rs19.4) and Rs18 (earlier Rs17.2) for FY19E and FY20E, respectively. At CMP, the stock trades at 10.2x/8.8x FY19E/FY20E earnings and on EV/EBITDA, it trades at 3.9x/2.8x FY19E/FY20E EBITDA. We reiterate our BUY rating on the stock with revised target price of Rs200 (earlier Rs260), lowering our valuation multiple to 4.5x FY20E EV/EBITDA, due to weak outlook in the near term.

### Quarterly performance table

Particulars (Rs Mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
<b>Sales</b>	<b>3,328</b>	<b>2,998</b>	<b>11.0</b>	<b>3,578</b>	<b>(7.0)</b>
Employee expenses	1,009	1,017		962	
% of Sales	30.3	33.9		26.9	
Other Expenses	884	793		873	
% of Sales	26.6	26.5		24.4	
<b>EBITDA</b>	<b>1,546</b>	<b>1,228</b>	<b>25.9</b>	<b>1,463</b>	<b>5.7</b>
<b>EBITDA margin (%)</b>	<b>46.5</b>	<b>41.0</b>		<b>40.9</b>	
Depreciation	170	157		156	
Interest	0	0		0	
<b>EBT</b>	<b>1,376</b>	<b>1,072</b>		<b>1,307</b>	
Other Income	473	474		451	
<b>PBT</b>	<b>1,849</b>	<b>1,546</b>	<b>19.6</b>	<b>1,758</b>	<b>5.2</b>
Tax	647	508		707	
<b>PAT</b>	<b>1,203</b>	<b>1,038</b>	<b>15.9</b>	<b>1,051</b>	<b>14.4</b>
NPM (%)	36.1	34.6		29.4	

Source: Company, Kotak Securities – Private Client Research

### Jatin Damania

Jatin.damania@kotak.com

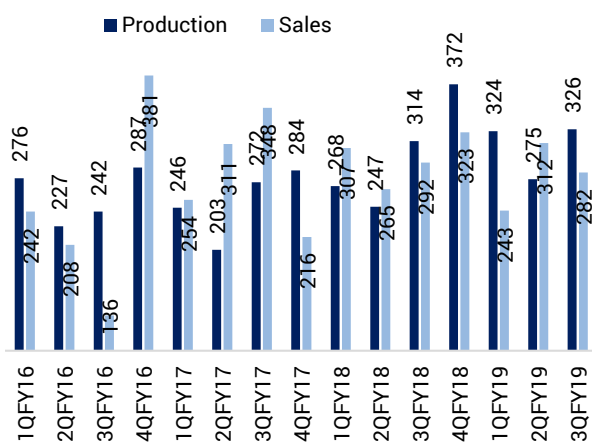
+91 22 6218 6440

### Lower volume partly offset realisation benefit

Sales volume during the quarter declined 3.4% YoY and 9.6% QoQ to 2.8MT. Ore sales volumes were lower than production volumes of 0.32MT leading to a buildup of inventory in the quarter. The MOIL has added 88,000 tonnes of inventory in 9MFY19 which it plans on offloading in the subsequent quarters as demand environment improves. Lower volume partly offset the benefit of higher realisation. Non-Fines realization increased 7% YoY to Rs12,159/t (+6.8% QoQ), while Fines realization was up 4%YoY at Rs3,301/t.

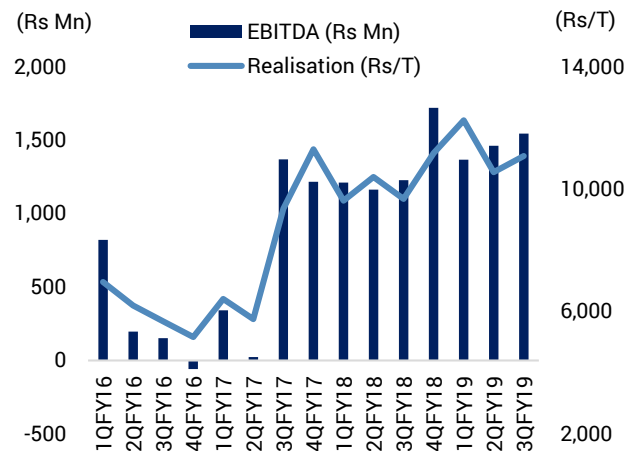
EBITDA during the quarter grew 25.9% YoY and 5.7% QoQ to Rs1.55bn, with an EBITDA margin of 46.5%. Going ahead, due to subdued manganese ore price outlook, we expect margin to remain in the range of 40-44%. We have modeled 1.1MT and 1.3MT of volume in FY19E and FY20E, respectively.

Mn ore production and sales volume ('000 T)



Source: Company

Mn ore realisation and EBITDA trend



Source: Company

### Robust balance sheet with healthy liquidity position

MOIL is a debt free company with a robust balance sheet and a healthy liquidity position. The strong balance sheet, makes the company better placed to expand its mining capacity and to acquire other mines. The company is well placed to fund its capex of Rs15-20 bn till FY21, backed by its strong cash flow. It has a healthy operating cash flow of ~Rs4bn every year, which would further add up to the cash balance. Besides this, dividend yield is likely to remain in the range of 2-3% in the coming years. Higher liquidity and attractive dividend yield provide a high margin of safety.

### Company Background

MOIL has ~81.47MT of reserves & resources (R&R) of manganese ore out of which ~44% are proven reserves. Currently, MOIL operates 10 mines: six in Maharashtra and four in Madhya Pradesh. These include 3 open cast mines and 7 underground mines. The company's annual production of manganese ore is over 1MT. MOIL also has a ferro manganese plant with an installed capacity of 10000 tonnes, an electrolytic manganese dioxide (EMD) plant with a capacity of 1000 tonnes and two wind power plants with an aggregate capacity of 20 MW.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>9,819</b>	<b>13,235</b>	<b>12,540</b>	<b>14,077</b>
growth (%)	56.2	34.8	(5.3)	12.3
Operating expenses	6,847	7,908	7,526	7,974
<b>EBITDA</b>	<b>2,972</b>	<b>5,327</b>	<b>5,014</b>	<b>6,103</b>
growth (%)	225.4	79.2	(5.9)	21.7
Depreciation & amortisation	549	624	704	812
<b>EBIT</b>	<b>2,423</b>	<b>4,702</b>	<b>4,310</b>	<b>5,291</b>
Other income	2,212	1,777	1,622	1,611
Interest paid	0	0	0	0
<b>PBT</b>	<b>4,635</b>	<b>6,479</b>	<b>5,932</b>	<b>6,903</b>
Tax	1,561	2,259	1,958	2,278
Effective tax rate (%)	33.7	34.9	33.0	33.0
<b>Net profit</b>	<b>3,074</b>	<b>4,220</b>	<b>3,974</b>	<b>4,625</b>
Minority interest	0	0	0	0
<b>Reported Net profit</b>	<b>3,074</b>	<b>4,220</b>	<b>3,974</b>	<b>4,625</b>
<b>Adjusted Net profit</b>	<b>3,074</b>	<b>4,220</b>	<b>3,974</b>	<b>4,625</b>
growth (%)	77.9	37.3	(5.8)	16.4

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	4,635	6,479	5,932	6,903
Depreciation	549	624	704	812
Chg in working capital	(573)	1,608	497	(225)
Total tax paid	1,605	2,259	1,958	2,278
<b>Operating CF</b>	<b>3,005</b>	<b>6,452</b>	<b>5,175</b>	<b>5,212</b>
Capital expenditure	(1,063)	(1,935)	(3,611)	(1,350)
Chg in investments	(2)	(235)	0	0
Other investing activities	1,729	0	0	0
<b>Investing CF</b>	<b>664</b>	<b>(2,170)</b>	<b>(3,611)</b>	<b>(1,350)</b>
Equity raised/(repaid)	(8,734)	(2,104)	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	802	1,707	1,707	1,707
Other financing activities	0	0	0	0
<b>Financing CF</b>	<b>(9,536)</b>	<b>(3,811)</b>	<b>(1,707)</b>	<b>(1,707)</b>
Net chg in cash & bank bal.	(5,866)	471	(144)	2,154
<b>Closing cash &amp; bank bal</b>	<b>20,920</b>	<b>21,391</b>	<b>21,247</b>	<b>23,402</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	20,920	21,391	21,247	23,402
Other Current assets	4,940	4,437	4,736	5,392
Investments	2	235	235	235
Net fixed assets	4,486	5,863	8,770	9,309
Other non-current assets	436	480	480	480
<b>Total assets</b>	<b>30,784</b>	<b>32,405</b>	<b>35,469</b>	<b>38,816</b>
Current liabilities	2,668	4,390	5,186	5,617
Borrowings	0	0	0	0
Other non-current liabilities	60	23	23	23
<b>Total liabilities</b>	<b>2,728</b>	<b>4,413</b>	<b>5,209</b>	<b>5,640</b>
Share capital	1,332	2,576	2,576	2,576
Reserves & surplus	26,721	25,416	27,683	30,600
Shareholders' funds	28,053	27,992	30,259	33,177
Minority interest	0	0	0	0
<b>Total equity &amp; liabilities</b>	<b>30,784</b>	<b>32,405</b>	<b>35,469</b>	<b>38,816</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	30.3	40.2	40.0	43.4
EBITM	24.7	35.5	34.4	37.6
NPM	31.3	31.9	31.7	32.9
RoE	11.0	15.1	13.1	13.9
RoCE	10.0	13.0	11.2	11.9
Per share data (Rs)				
EPS	23.1	16.4	15.4	18.0
CEPS	27.2	18.8	18.2	21.1
BV	210.6	108.7	117.5	128.8
DPS	11.0	5.5	5.5	5.5
Valuation ratios (x)				
PE	6.8	9.6	10.2	8.8
P/BV	0.8	1.5	1.3	1.2
EV/EBITDA	6.7	3.6	3.9	2.8
EV/Sales	2.0	1.5	1.6	1.2
Other key ratios				
D/E (x)	0.0	0.0	0.0	0.0
DSO (days)	90	52	52	52

Source: Company, Kotak Securities – Private Client Research



## Result Update

# VRL LOGISTICS LTD (VRL)

### Stock Details

Market cap (Rs mn)	:	22496
52-wk Hi/Lo (Rs)	:	460 / 248
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	52,907
Shares o/s (mn)	:	90

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	19,222	21,330	24,190
Growth (%)	6.6	11.0	13.4
EBITDA	2,341	2,720	3,253
EBITDA margin (%)	11.3	12.8	13.4
PAT	757	1,085	1,336
EPS	8.4	12.0	14.8
EPS Growth (%)	0.5	22.0	13.6
BV (Rs/share)	67.9	74.4	83.3
Dividend/share (Rs)	6.1	5.0	5.5
ROE (%)	12.1	16.9	18.8
ROCE (%)	17.7	22.3	24.4
P/E (x)	29.7	20.7	16.8
EV/EBITDA (x)	10.2	8.3	7.0
P/BV (x)	3.7	3.3	3.0

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	68.1	68.1	68.1
FII	6.8	9.1	12.0
DII	18.0	15.8	11.8
Others	7.2	7.0	8.0

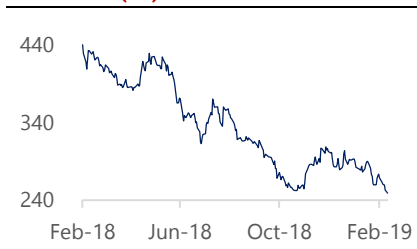
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
VRL Logistics	(9.9)	(13.0)	(21.7)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Amit Agarwal

agarwal.amit@kotak.com  
+91 22 6218 6439

**PRICE Rs.249**

**TARGET Rs.355**

**BUY**

Continued strong performance in the trucking segment led by double digit tonnage growth, improving country-wide GST compliance, favourable regulatory environment, improvement in domestic trade, strong performance of the bus division and correction in diesel prices were the highlights for Q3FY19 for VRL

### Key Highlights

- ❑ VRL has reported total sales at Rs 5.51bn (+12.7% YoY) led by strong growth in the trucking division. Trucking division reported double digit volume growth. We believe the division benefitted from GST implementation, increase in axle load and improving domestic trade.
- ❑ Bus division positively surprised in the quarter with EBIT of Rs 445 mn, which improved the overall performance of the company.
- ❑ Decreasing crude prices and simultaneous decrease in diesel prices (diesel prices in Mumbai is -18% QoQ) and increasing cost of regulatory compliance (GST implementation) impacted operational performance. Company reported EBIDTA of Rs 697 mn with EBIDTA margin of 12.6% (+220 bps QoQ and flat YoY).
- ❑ Consequently PAT was reported Rs 266 mn in line ahead of our estimate of Rs 239 mn
- ❑ Company has guided for 10% YoY volume growth over FY18 to FY20E

### Valuation and outlook

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY21E. We estimate strong earnings growth in long term for the company with improvement in EBIDTA margins and return ratios. We continue to remain positive on the company and value the company at 24x FY20 earnings and Recommend BUY with an unchanged TP of Rs 355.

### Quarterly Performance (Consolidated)

(Rs mn)	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)
<b>Sales</b>	<b>4893</b>	<b>5170</b>	<b>5512</b>	<b>12.7</b>	<b>6.6</b>
Operating expd	3305	3651	3806	15.2	4.2
Employee	911	918	944	3.6	2.8
Other	59	61	65	10.2	6.6
Total operating expd	4275	4630	4815	12.6	4.0
<b>EBIDTA</b>	<b>618</b>	<b>540</b>	<b>697</b>	<b>12.8</b>	<b>29.1</b>
EBIDTA %	12.6	10.4	12.6		
Depreciation	245	252	253	3.3	0.4
Other income	37	24	12	-67.6	-50.0
Finance cost	20	20	36	80.0	80.0
Exceptional	0	0	0		
<b>PBT</b>	<b>390</b>	<b>292</b>	<b>420</b>	<b>7.7</b>	<b>43.8</b>
Tax	136	85	154	13.2	81.2
<b>RPAT</b>	<b>254</b>	<b>207</b>	<b>266</b>	<b>4.7</b>	<b>28.5</b>

Source: Company, Kotak Securities – Private Client Research

### Segmental Performance

Sales (Rs mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Trucking	3868	3965	4098	4189	4402
Bus	939	834	1072	811	1032
Power	25	20	54	117	27
Air chartering	30	43	33	26	24
Others	31	29	27	27	27
<b>Total</b>	<b>4893</b>	<b>4891</b>	<b>5284</b>	<b>5170</b>	<b>5512</b>
<b>EBIT (Rs mn)</b>					
Trucking	364	275	295	366	445
Bus	86	-27	120	-84	101
<b>EBIT Margin (%)</b>					
Trucking	9.4	6.9	7.2	8.7	10.1
Bus	9.2	-3.2	11.2	-10.4	9.8

Source: Company

In Q3FY19, the **trucking segment** reported revenue growth of 13.8% YoY, led by 10%/4% YoY growth in tonnage/realization. We believe the strong volume growth was on the back of 1) GST implementation; 2) Improvement in domestic trade and 3) Geographical expansion by the company. Lower diesel prices positively impacted the operating margins with the company passing some benefits to the customers.

**Bus division** positively surprised in the quarter with the division reporting EBIT of Rs 445 mn improving the overall performance of the company.

### Change in axle norms to benefit VRL

The government recently increased the official maximum load carrying capacity of heavy vehicles, including trucks, by 14-20 % besides scrapping the mandatory annual renewal of fitness certificates for freight carriers. The change has come for the first time in 35 years providing impetus to the organised trucking industry. The change has brought India's permissible truck axle load limits to levels prevalent in developed nations. VRL has already registered more than 100 vehicles from its current fleet under the new axle load scheme and is in the process of registering the remaining vehicles within FY19. Management indicated the new axle norms would save cost and also bring down capex requirement.

### Change in axle norms for trucking industry

Tonnes	Old restriction	New restriction	Change (%)
Two axle	16.2	18.5	14.2
Three axle	25	28.5	14.0
Multi axle	37	43.5	17.6

Source: Industry

### Decrease in diesel prices is positive for VRL

Diesel prices in Mumbai is currently at Rs 67.7 per litre (down from Rs 80 per litre or down 15.4% in the last 3 months). The healthy correction in diesel prices is positive for VRL.

### Diesel prices in Mumbai (Rs/litre)



Source: Bloomberg

### Current Capex has aligned with GST

Management of VRL had indicated that the company has most of the infrastructure in place to cater to the changing requirement of clients in the medium term, Accordingly, we had envisaged that the next phase of capex for the company would be now primarily towards purchase of larger and modern trucks, new Volvo buses and expansion of hubs. The upcoming capex would be in sync with the requirement mandated by GST and adhere to the new Axle Load norms, we estimate the company to spend around Rs 5.3 bn over FY18 to FY21E (approx. Rs 1.8 bn per annum) as capex of which the company has already planned capex of Rs 4 bn towards modern trucks (10 to 12 wheeler trucks). Also with strong operational cash flow of ~ Rs 2 bn per annum, we expect the capex program to not impact the BS of the company.

### Capex Planned

(Rs mn)	FY19E	FY20E
Trucks	1600	1500
Buses	100	100
Other vehicles	50	50
Hubs	300	300
<b>Total</b>	<b>2050</b>	<b>1950</b>

Source; Company, Kotak Securities – Private Client Research

### Improvement in performance going forward

We estimate that the various legislative changes like GST Act, Motor Vehicle Amendment Act, Scrappage policy and Axle Load norms, to fully yield benefits for VRL from FY21. Healthy GDP growth, improvement in trade and various road infra projects of the government would further add to the growth of the company.

For VRL we expect,

- Improvement in tonnage in the trucking segment with enhanced client base
- Improvement in occupancy in the bus segment with improved geographical reach
- Operating leverage to play-out which would lead to improvement in margins and return ratios
- Management has guided for 10% YoY volume growth per annum over the next 3 years

**Valuation & outlook**

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY21E. We estimate strong earnings growth in long term for the company with improvement in EBIDTA margins and return ratios. We continue to remain positive on the company and value the company at 24x FY20 earnings and Recommend BUY with an unchanged TP of Rs 355.

**Company Background**

VRL is a leading Pan-India surface logistics, parcel delivery and luxury bus services provider, owning and operating a large fleet of commercial vehicles and luxury buses providing general parcel, priority parcel delivery, courier, full-truckload (FTL) and passenger bus services through its widespread transportation network. We believe that the differentiated service offerings, large integrated hub-and-spoke transportation network, extensive operational and maintenance infrastructure and in-house technology systems would enable the company to report healthy growth

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>18,030</b>	<b>19,222</b>	<b>21,330</b>	<b>24,190</b>
% change YoY	4.4	6.6	11.0	13.4
Opex	13,315	14,349	15,632	17,587
Employee cost	1,902	2,026	2,233	2,512
Other expenses	634	675	744	837
Total Operating expd	15,851	17,050	18,610	20,937
<b>EBITDA</b>	<b>2,179</b>	<b>2,172</b>	<b>2,720</b>	<b>3,253</b>
Depreciation	933	975	1,014	1,081
<b>EBIT</b>	<b>1,246</b>	<b>1,197</b>	<b>1,706</b>	<b>2,172</b>
Other income	92	143	100	100
Interest expense	174	115	187	278
<b>Profit before tax</b>	<b>1,164</b>	<b>1,225</b>	<b>1,619</b>	<b>1,994</b>
Tax	352	468	534	658
ETR (%)	30.2	38.2	33.0	33.0
<b>Profit after tax</b>	<b>812</b>	<b>757</b>	<b>1,085</b>	<b>1,336</b>
JV & Associates	0	0	0	0
<b>Net income</b>	<b>812</b>	<b>757</b>	<b>1,085</b>	<b>1,336</b>
% change YoY	-28.4	-6.8	43.3	23.2
Shares outstanding (m)	91	90	90	90
<b>EPS</b>	<b>8.9</b>	<b>8.4</b>	<b>12.0</b>	<b>14.8</b>

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	812	757	1,085	1,336
Depreciation +DTL	968	1,022	1,067	1,147
Change in working capital	(26)	(41)	(72)	(97)
<b>Cash flow from operations</b>	<b>1,754</b>	<b>1,738</b>	<b>2,081</b>	<b>2,386</b>
Capex	(786)	(868)	(1,840)	(1,450)
Investments	-	-	-	-
<b>Cash flow from investments</b>	<b>(786)</b>	<b>(868)</b>	<b>(1,840)</b>	<b>(1,450)</b>
Equity issuance	-	(414)	-	-
Debt raised	(428)	30	648	416
Dividend Paid	(538)	(646)	(551)	(596)
Miscellaneous items	-	-	-	-
<b>Cash flow from financing</b>	<b>(966)</b>	<b>(1,030)</b>	<b>98</b>	<b>(180)</b>
Net cash flow	2	(160)	338	756
Opening cash	258	260	100	438
Closing cash	260	100	438	1,194

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	260	100	438	1,194
Debtors	811	865	960	1,089
Inventory	216	231	256	290
Loans & advances	1,262	1,346	1,493	1,693
Other current assets	180	192	213	242
Total current assets	2,470	2,633	2,922	3,314
LT investments	1	1	1	1
Net fixed assets	6,817	6,710	7,536	7,905
<b>Total assets</b>	<b>9,548</b>	<b>9,446</b>	<b>10,899</b>	<b>12,414</b>
Creditors	1,659	1,768	1,962	2,225
Provisions	198	211	235	266
Other current liabilities	0	0	0	0
Total current liabilities	1,857	1,980	2,197	2,492
LT debt	1,308	1,337	1,985	2,401
Minority Interest	0	0	0	0
Equity Capital	912	903	903	903
Reserves	5,471	5,224	5,812	6,617
Networth	6,383	6,127	6,715	7,520
<b>Total liabilities</b>	<b>9,548</b>	<b>9,446</b>	<b>10,899</b>	<b>12,414</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	12.1	11.3	12.8	13.4
EBIT margin (%)	6.9	6.2	8.0	9.0
Net profit margin (%)	4.5	3.9	5.1	5.5
ROE (%)	13.0	12.1	16.9	18.8
ROCE (%)	17.3	17.7	22.3	24.4
DPS	5.0	6.1	5.0	5.5
Dividend payout (%)	66.2	85.3	50.8	44.6
Book Value (Rs/share)	70.0	67.9	74.4	83.3
Working capital turnover (days)	12.1	12.0	11.8	11.7
Debt Equity (x)	0.2	0.2	0.3	0.3
PER (x)	28.0	29.7	20.7	16.8
P/C (x)	12.8	12.6	10.4	9.1
Dividend yield (%)	2.0	2.4	2.0	2.2
P/B (x)	3.6	3.7	3.3	3.0
EV/Sales (x)	1.3	1.2	1.1	1.0
EV/ EBITDA (x)	10.4	10.2	8.3	7.0

Source: Company, Kotak Securities – Private Client Research

## Result Update

## VA TECH WABAG LTD

### Stock Details

Market cap (Rs mn)	:	14933
52-wk Hi/Lo (Rs)	:	580 / 243
Face Value (Rs)	:	2
3M Avg. daily vol (Nov)	:	249,477
Shares o/s (mn)	:	55

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	34,573	31,835	35,833
Growth (%)	7.8	(7.9)	12.6
EBITDA	2,918	2,453	3,082
EBITDA margin (%)	8.4	7.7	8.6
PAT	1,315	1,035	1,422
EPS (Rs)	24.1	19.0	26.1
Growth (%)	28.4	(21.3)	37.4
BV (Rs/share)	206.8	237.5	272.5
Dividend per share (Rs)	4.0	4.0	4.0
ROE (%)	12.3	8.8	11.1
ROCE (%)	11.1	8.5	10.2
P/E (x)	11.4	14.4	10.5
EV/EBITDA (x)	6.1	5.6	4.4
P/BV (x)	1.3	1.2	1.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	24.7	24.7	24.7
FII	20.6	20.9	24.7
DII	9.1	12.8	20.1
Others	45.7	41.6	30.5

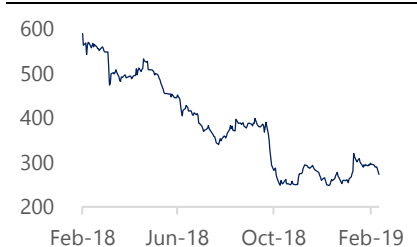
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Va Tech Wabag	(12.8)	(7.3)	(26.7)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Sanjeev Zarbade

sanjeev.zarbade@kotak.co  
+91 22 6218 6424

PRICE RS.273

TARGET RS.338

BUY

VA Tech (VAW) reported weak set of numbers which were lower than our estimates on revenue and profit front. EBITDA margin bore the brunt of lower revenues. On the positive side, order wins have been healthy in 9MFY19, thereby leading to much improved order book.

### Key Highlights

- The major overseas projects like Petronas Malaysia ETP are in completion stage, hence resulting in lower sales and margins compared to previous fiscal, the management commented.
- Commenting on the margin decline, the management indicated that apart from lower revenue booking, some of the recent projects have yet to reach the profit recognition stage.
- For the current fiscal, the management had given revenue guidance of Rs 40-42 bn, but this has now been reduced to Rs 35-37 bn.

### Valuation and Outlook

VAW is trading at 14.4x and 10.5x, FY19 and FY20 earnings respectively. In view of the long term growth potential in water and waste water treatment and reasonable valuations, we reiterate "BUY" with price target of Rs 338 (earlier Rs 378), valuing the stock at 13x FY20 earnings.

We will turn more bullish if 1) upturn in order inflows and 2) receipt of retention money from APGENCO.

### Quarterly performance

(Rs mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Net Sales &amp; Other Operating Income</b>	<b>6619</b>	<b>8647</b>	<b>-23.5</b>	<b>7520</b>	<b>-12.0</b>
Total Expenditure	6149	7871	-21.9	7028	-12.5
Cost of Services & Raw Materials	5096	6851		5969	-14.6
Other Expenses	343	351	-2.3	423	-18.9
Employee Cost	710	669	6.2	636	11.7
<b>PBITD</b>	<b>493</b>	<b>776</b>	<b>-39.4</b>	<b>492</b>	<b>-4.5</b>
Other Income	5	8	-36.9	5	17.8
Depreciation	41	43	-4.8	42	-1.4
<b>EBIT</b>	<b>457</b>	<b>741.4</b>	<b>-41.4</b>	<b>454.9</b>	<b>-4.6</b>
Interest	188	142	32.0	177	6.3
Forex gain/(loss)	0.0	0.0	#DIV/0!	130.00	-100.0
<b>PBT</b>	<b>209</b>	<b>599.1</b>	<b>-58.9</b>	<b>408.1</b>	<b>-39.6</b>
Tax	149	248	-40.1	141	5.3
<b>Profit After Tax</b>	<b>120</b>	<b>350.7</b>	<b>-72.2</b>	<b>266.8</b>	<b>-63.5</b>
Minority Interest	33.3	-57.7	-157.7	73.4	-54.6
Shares of Associates	0.4	7.2	-94.4	12.2	-96.7
<b>Consolidated Net Profit</b>	<b>151</b>	<b>300.2</b>	<b>-56.3</b>	<b>352.4</b>	
EBITDA (%)	7.1	9.0		6.5	
Material costs to sales (%)	77.0	79.2		79.4	
Staff costs to sales (%)	10.7	7.7		8.5	
Other expenditure to sales (%)	5.2	4.1		5.6	
Tax rate (%)	60.4	41.5		34.6	
<b>EPS (Rs)</b>	<b>2.4</b>	<b>5.5</b>		<b>6.5</b>	

Source: Company



### Quarterly performance – Reported Vs Estimated

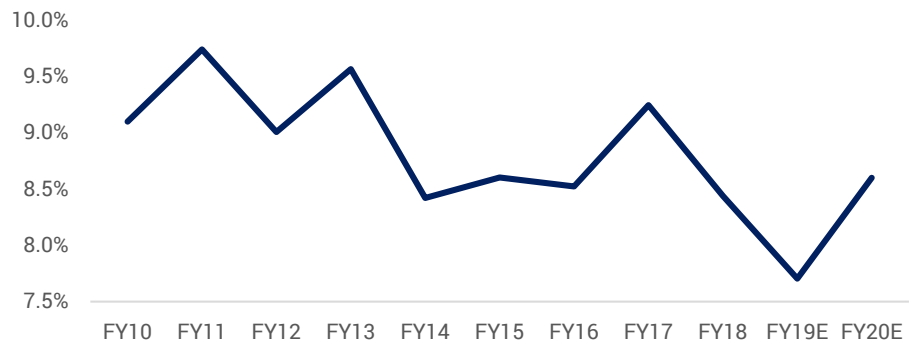
(Rs mn)	Reported	Estimated
Revenue	6619	8913
EBITDA (%)	7.40	9.60
PAT	154	398

Source: Kotak Securities – Private Client Research

### Consolidated results highlights

- Revenue - consolidated revenue stood at Rs 6.9 bn, [(-)23% YoY] and was lower than our revenue estimates.
- The major overseas projects like Petronas Malaysia ETP are in completion stage, hence resulting in lower sales and margins compared to previous fiscal, the management commented.
- EBITDA for the quarter stood at Rs 493 mn (down 39% YoY), which was lower than our estimates due to margin decline as a result of lower revenue booking.
- EBITDA margins for the quarter stood at 7.4% vs 9.0% on a y-o-y basis, mainly due to lower revenue booking during the quarter leading reduced fixed cost absorption.
- Commenting on the margin decline, the management indicated that apart from lower revenue booking, some of the recent projects have yet to reach the profit recognition stage.

### EBITDA margin (%)



Source: Company, Kotak Securities – Private Client Research

- Share of profits from associates stood at Rs 0.4 mn vs Rs 7.2 mn on a y-o-y basis. The company reported PAT of Rs 154 mn vs Rs 300 mn in corresponding quarter of the previous fiscal.

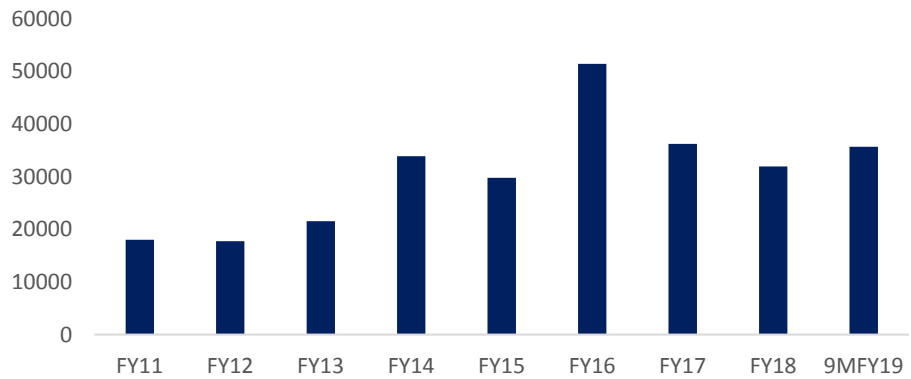
### PAT (Rs mn)



Source: Company, Kotak Securities – Private Client Research

- Consolidated Order backlog stands at Rs 83.6 bn (vs. Rs 65.2 bn on a y-o-y basis). Order book has improved significantly in Q2FY19 due to accretion of some large orders in Q2FY19. The revenue visibility provided by order book has also improved to 32 months of trailing four quarter revenues.
- Order intake in Q3FY19 reported good growth (albeit on a low base) at Rs 5.7 bn (vs Rs 3.2 bn on a y-o-y basis).

**Order intake (Rs mn)**



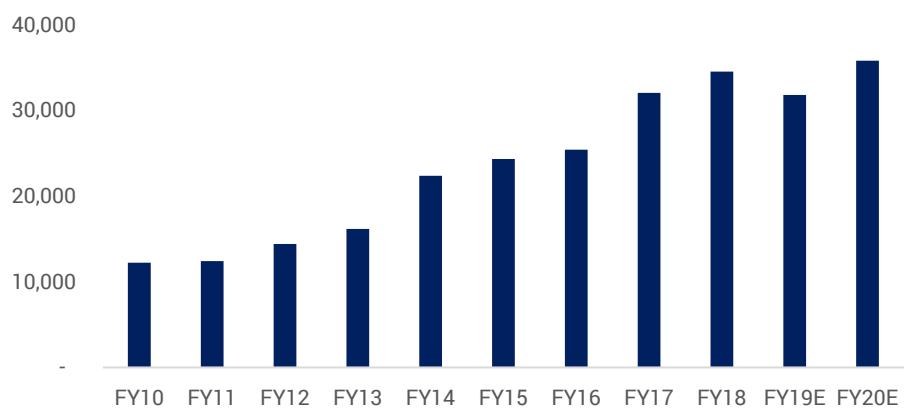
Source: Company

**Management Guidance – Reduced guidance on revenues**

The company missed out on its revenue guidance of Rs 38-40 bn in FY18 due to tepid order book. For the current fiscal, the management had given revenue guidance of Rs 40-42 bn, but this has now been reduced to Rs 35-37 bn.

In 9MFY19, the company has reported revenue of Rs 21 bn, which is lower by 14% on a y-o-y basis. To meet its FY19 revenue guidance (Rs 40 bn), the company needs to report revenue growth of 35% y-o-y in Q4FY19, a challenging task, in our view.

**Revenue (Rs mn)**



Source: Company, Kotak Securities – Private Client Research

Also, the company missed out on its order intake guidance of Rs 43-45 bn in FY18 as actual order intake was at Rs 31.9 bn. For the current fiscal, the management has given order intake guidance of Rs 53-57 bn, which implies a growth of 66-79% over FY18 order intake. Herein, the company is in a better position as it has won orders of Rs 35.7 bn in 9MFY19, which is 67% of the full year guidance.

The outlook for new orders remains positive, subject to delay in finalization of orders, which is often the case as a majority of orders are from government entities.

### Conference call highlights

- The management indicated that the elevated level of working capital is attributed to increased level of projects that are under construction stage.
- The company has not been able to collect the expected level of receivables from its APGENCO project as there has been further delay due to the dissolution of the assembly by the Telangana government. Receivables with TSGENCO is scheduled to be discussed in board meeting this month. The management is optimistic that by the end of FY19, the receivables outstanding from TSGENCO will reduce to below Rs1.5 bn.
- For the fiscal, the management is guiding towards collection of 27% of the outstanding receivables of Rs 5.5 bn from the APGENCO/TSGENCO project.

### Outlook

The VAW stock has underperformed the market and the sector peers on account of 1) weak order intake in FY18, 2) compression in cash flow generation due to elevated working capital thereby leading to increase in debt. The much anticipated collection of receivables pertaining to the APGENCO project has continued to get postponed, much to the disappointment of the investors.

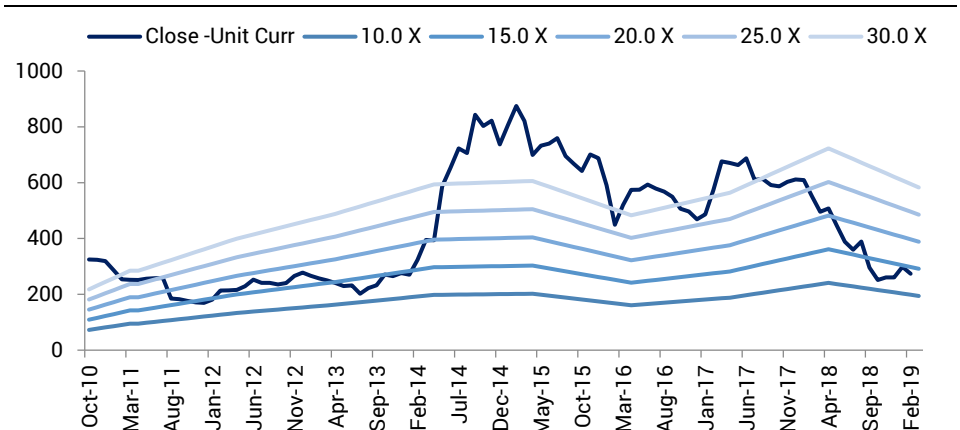
Considering these factors, we ascribe a lower target price to the stock. However, taking note of the improving order book and attractive valuations, we maintain BUY rating on the stock.

### Valuation – Maintain BUY

We have cut FY19E & FY20E earnings by 20% and 10% respectively. VAW is trading at 14.4x and 10.5x, FY19 and FY20 earnings respectively. In view of the long term growth potential in water and waste water treatment and reasonable valuations, we reiterate “BUY” with price target of Rs 338 (earlier Rs 378), valuing the stock at 13x FY20 earnings.

We will turn more bullish if 1) upturn in order inflows and 2) receipt of retention money from APGENCO.

### PE chart



Source: Kotak Securities – Private Client Research

### **Background**

VAW is a multinational player in the water treatment industry with market presence in India, the Middle East, North Africa, Central and Eastern Europe, China and South East Asia through its principal offices in India, Austria, the Czech Republic, China, Switzerland, Algeria, Romania, Tunisia, UAE, Libya and Macao. VAW is headquartered in Chennai and operations are conducted through its overseas subsidiaries and branch and representative offices. VAW shares strategic and technical expertise across Subsidiaries that allows research, operational and marketing synergies.

VAW has R & D centres located in Chennai, India and at Vienna and Winterthur in Austria and Switzerland respectively. Wabag Austria and Wabag Wassertechnik own 157 patents which include both process and product patents. Wabag Austria has also applied for 51 patents that are pending.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>32,079</b>	<b>34,573</b>	<b>31,835</b>	<b>35,833</b>
% change yoy	26.1	7.8	(7.9)	12.6
<b>EBITDA</b>	<b>2,966</b>	<b>2,918</b>	<b>2,453</b>	<b>3,082</b>
% change yoy	37	-2	-16	26
Other Income	112	57	21	50
Depreciation	191	178	168	185
<b>EBIT</b>	<b>2,775</b>	<b>2,739</b>	<b>2,285</b>	<b>2,897</b>
% change yoy	41	-1	-17	27
<b>Net Interest</b>	<b>526</b>	<b>577</b>	<b>713</b>	<b>716</b>
Earnings Before Tax	2,362	2,219	1,593	2,230
% change yoy	53.4	(6.0)	(28.2)	40.0
Tax	(667)	(774)	(667)	(758)
as % of EBT	(28.2)	(34.9)	(41.9)	(34.0)
Net Income adj	1,695	1,445	926	1,472
% change yoy	91.8	(14.8)	(35.9)	59.0
Share of profit from associates (573)		26	45	-
Minority Interest	(98)	(155)	65	(50)
<b>Reported Net Income</b>	<b>1,024</b>	<b>1,315</b>	<b>1,035</b>	<b>1,422</b>
Shares outstanding (m)	54.6	54.6	54.6	54.6
<b>Adj EPS (Rs)</b>	<b>18.8</b>	<b>24.1</b>	<b>19.0</b>	<b>26.1</b>
DPS (Rs)	4.0	4.0	4.0	4.0
CEPS	22.3	27.4	22.0	29.4

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	2,966	2,918	2,453	3,082
Direct tax paid	(770)	(825)	(667)	(758)
Adjustments	(151)	(204)	-	-
Cash flow from operations	2,045	1,888	1,785	2,323
Net Change in Working Capital	(1,727)	(3,367)	3,362	(1,128)
<b>Net Cash from Operations</b>	<b>318</b>	<b>(1,479)</b>	<b>5,147</b>	<b>1,195</b>
Capital Expenditure	(139)	(64)	(150)	(150)
Cash from investing	327	164	21	50
<b>Net Cash from Investing</b>	<b>188</b>	<b>100</b>	<b>(129)</b>	<b>(100)</b>
Interest paid	(526)	(577)	(713)	(716)
Issue of Shares	0	0	(0)	-
Other liabilities	539	(664)	-	-
Dividends Paid	(264)	(267)	(260)	(255)
Debt Raised	(683)	1,682	(0)	-
<b>Net cash from financing</b>	<b>(933)</b>	<b>174</b>	<b>(974)</b>	<b>(971)</b>
Net change in cash	(427)	(1,205)	4,045	124
Free cash flow	179	(1,542)	4,997	1,045
cash at end	2,390	1,852	5,896	6,020

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	2,615	1,852	5,896	6,020
Accounts receivable	25,115	28,732	24,857	27,979
Inventories	385	382	385	385
Loans and Advances	409	348	409	409
Other current assets	2,163	3,054	2,180	2,454
<b>Current Assets</b>	<b>30,687</b>	<b>34,368</b>	<b>33,728</b>	<b>37,248</b>
Investments/Loans and Adv	826	831	831	831
Intangible Assets	691	732	732	732
Net fixed assets	1,053	992	974	939
Deferred tax assets	247	380	380	380
CWIP	-	-	-	-
<b>Total Assets</b>	<b>33,506</b>	<b>37,303</b>	<b>36,645</b>	<b>40,130</b>
Payables	18,163	19,206	18,054	20,322
Provisions	657	692	521	521
<b>Current liabilities</b>	<b>18,820</b>	<b>19,898</b>	<b>18,575</b>	<b>20,843</b>
LT debt	3,091	4,773	4,773	4,773
Other liabilities	1,491	899	833	833
Equity & reserves	9,931	11,396	12,176	13,343
Minority Interest	173	338	273	323
<b>Total Liabilities</b>	<b>33,506</b>	<b>37,303</b>	<b>36,645</b>	<b>40,130</b>
BVPS (Rs)	182.0	208.8	223.1	244.5

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.2	8.4	7.7	8.6
EBIT margin (%)	8.7	7.9	7.2	8.1
Net profit margin (%)	5.3	4.2	2.9	4.1
Receivables (days)	285.8	303.3	285.0	285.0
Inventory (days)	4.4	4.0	4.4	3.9
Sales / Net Fixed Assets (x)	30.5	34.8	32.7	38.1
Interest coverage (x)	5.6	5.1	3.4	4.3
Debt/equity ratio(x)	0.3	0.4	0.4	0.4
ROE (%)	10.7	12.3	8.8	11.1
ROCE (%)	13.8	11.1	8.5	10.2
EV/ Sales	0.5	0.5	0.4	0.4
EV/EBITDA	5.1	6.1	5.6	4.4
Price to earnings (P/E)	14.6	11.4	14.4	10.5
Price to book value (P/B)	1.5	1.3	1.2	1.1
Price to cash earnings	12.3	10.0	12.4	9.3

Source: Company, Kotak Securities – Private Client Research

## Result Update

# FINOLEX INDUSTRIES LTD (FIL)

### Stock Details

Market cap (Rs mn)	:	62054
52-wk Hi/Lo (Rs)	:	713 / 460
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	36,779
Shares o/s (mn)	:	124

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	27,378	30,051	34,541
Growth (%)	5.2	9.8	14.9
EBITDA	4,839	5,865	6,301
EBITDA margin (%)	17.7	19.5	18.2
PAT	2,985	3,727	3,940
EPS	24.1	30.0	31.8
EPS Growth (%)	(15.2)	24.8	5.7
BV (Rs/share)	223	241	261
Dividend/share (Rs)	10.0	10.0	10.0
ROE (%)	11.8	12.9	12.6
ROCE (%)	16.1	17.3	17.1
P/E (x)	20.8	16.7	15.8
EV/EBITDA (x)	13.0	10.6	9.6
P/BV (x)	2.2	2.1	1.9

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	52.5	52.5	52.5
FII	2.9	3.4	5.5
DII	10.0	9.5	8.8
Others	34.4	34.3	33.3

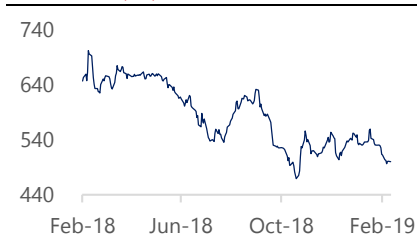
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Finolex Industries	(6.7)	(3.9)	(16.1)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

**PRICE RS.501**

**TARGET RS.635**

**BUY**

Finolex Industries Q3Y19 results was ahead of our estimates due to strong margins in the pipes segment while PVC pipes volume disappoints due to weak demand in its major markets.

### Key Highlights

- The company reported 4.7% yoy growth in net sales at Rs 7.6 bn driven by strong realization in pipes and resin segment. But the volume in both pipes and resin segment declined by 3.8% and 6% on yoy respectively due to weak demand in agri segment in its major markets. The improvement in realization is led by better product mix, higher PVC price and reduced discount in the pipes segment.
- EBITDA margin at 16.5%, improved by 80 bps yoy and, was ahead of our estimates due to higher realization.
- FIL has maintained positive demand outlook in the longer run in PVC pipes business and aims to grow its volume at double digit rate. However in FY19E, the company is expected to report single digit volume growth due to weak volume in Q3FY19.

### Outlook and Valuations

We have marginally revised our estimates for FY20E based on higher realization in PVC pipes segment and lower spread in PVC resin segment. The stock is presently trading at PE of 16.7x and 15.8x based on FY19E and FY20E revised EPS of Rs 30 and Rs 31.8 per share, respectively. We maintain our BUY rating on the stock with revised target price of Rs 635 (Vs Rs 642), valuing the stock at 20x.

### Quarterly performance table

Particulars Rs Mn	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Net Sales</b>	<b>7,566</b>	<b>7,227</b>	<b>4.7%</b>	<b>5,426</b>	<b>39.4%</b>
Expenditure	6,316	6,094	3.6%	4,177	51.2%
RM Cost	4,875	4,856	0.4%	2,892	68.6%
Employee Cost	328	294	11.6%	309	6.3%
Other Expenditure	1,113	944	18.0%	977	14.0%
<b>EBITDA</b>	<b>1,250</b>	<b>1,133</b>	<b>10.3%</b>	<b>1,249</b>	<b>0.0%</b>
EBITDAM%	16.5%	15.7%		23.0%	
Other Income	173	103	68.5%	123	40.8%
<b>PBIDT</b>	<b>1,422</b>	<b>1,236</b>	<b>15.1%</b>	<b>1,372</b>	<b>3.7%</b>
Depreciation	196	154	27.7%	166	18.4%
Interest	17	(4)	-576.3%	29	-40.6%
<b>PBT</b>	<b>1,209</b>	<b>1,086</b>	<b>11.3%</b>	<b>1,177</b>	<b>2.7%</b>
Tax	422	390	8.1%	413	2.2%
<b>PAT</b>	<b>787</b>	<b>695</b>	<b>13.1%</b>	<b>764</b>	<b>3.0%</b>
PATM%	10.4%	9.6%		14.1%	
Equity Capital	1,241	1,241	0.0%	1,241	0.0%
<b>EPS</b>	<b>6.3</b>	<b>5.6</b>	<b>13.1%</b>	<b>6.2</b>	<b>3.0%</b>

Source: Company

**Pankaj Kumar**

pankajr.kumar@kotak.com

+91 22 6218 6434

### Revenue growth driven by strong realization, PVC pipes volume declined

Net Revenue for the quarter grew by 4.7% yoy to Rs 7.6 bn (below our estimates of Rs 7.9 bn) driven by 1) volume decline of 3.8% yoy and 6.0% in PVC pipes segment and resin segment respectively and 2) realization growth of 15.4% yoy and 12% yoy in PVC pipes segment and resin segment respectively. The volume declined in the quarter is due to weak demand from its large markets like Maharashtra and Karnataka. The delay in payment to the sugarcane farmers have impacted demand of agri pipes. As per management, the weakness in agri pipes demand in these markets is expected to improve in near future. The demand from housing and plumbing sector remained as per expectation with double digit volume growth.

Better product mix, higher PVC prices and reduced discount resulted in higher realization for PVC pipes in the quarter. The company has been reducing discounts on qoq for the past few quarters. Fittings volume in the quarter grew by 4.2% yoy to 4869 tonnes on growth in plumbing segment. The company reported 2300 tonne of CPVC volume, up 53% yoy with revenue of Rs 610 mn up 60% yoy.

#### Volume Details

In tonnes	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
PVC Pipes & Fittings	59,179	61,514	-3.8%	45,272	30.7%
Pipes	54,309	56,842	-4.5%	40,648	33.6%
Fittings	4,869	4,672	4.2%	4,625	5.3%
PVC Resins	66,838	71,107	-6.0%	43,461	53.8%
Resins Internal	44,627	43,140	3.4%	34,680	28.7%
Resins External	22,211	27,967	-20.6%	8,781	152.9%

Source: Company

### EBITDA margins higher on better product mix and price hikes

EBITDA for the quarter grew by 10.3% yoy to Rs 1.25 bn (Vs estimates of Rs 900 mn) with EBITDA margins at 16.5% (Vs estimates of 11.4%) on strong margins in PVC pipes segment. The EBITDA margins for the quarter was driven by higher realization and better product mix. The company has taken price hikes to cover the price correction taken by it in the last year (in order to push volume growth aggressively post GST). The company reported 230 bps improvement in EBIT margin of PVC pipes segment.

EBIT margins in PVC resin business declined by 230 bps yoy and came in at 16.2% in the quarter. Hardening EDC price has resulted in lower PVC/EDC delta. This coupled with lower volume has reduced the margin in PVC segment on yoy basis. PVC-EDC spread in the quarter was at ~ USD 535 per tonne as against USD 733 per tonne yoy and US\$641 per tonne on qoq and declined sharply. PAT for the quarter grew by 13.1% yoy to Rs 787 mn Vs estimates of Rs 539 mn.



### Segmental Breakup

(Rs mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
<b>Gross Sales</b>	<b>11162</b>	<b>10295</b>	<b>8.4%</b>	<b>8268</b>	<b>35.0%</b>
PVC Pipes & Fittings	5906	5320	11.0%	4705	25.5%
PVC Resins	4840	4598	5.3%	3266	48.2%
Power	416	377	10.4%	297	40.1%
<b>EBIT</b>	<b>1322</b>	<b>1172</b>	<b>12.8%</b>	<b>1187</b>	<b>11.4%</b>
PVC Pipes & Fittings	467	297	57.2%	240	94.6%
PVC Resins	786	853	-7.9%	962	-18.3%
Power	69	22	213.6%	-15	-560.0%
<b>EBIT Margins%</b>	<b>11.8%</b>	<b>11.4%</b>		<b>14.4%</b>	
PVC Pipes & Fittings	7.9%	5.6%		5.1%	
PVC Resins	16.2%	18.5%		29.5%	
Power	16.6%	5.8%		-5.1%	

Source: Company

### Maintained positive outlook for long term

FIL has maintained positive demand outlook for long term in PVC pipes business and aims to grow its volume at double digit rate in the longer run. However in FY19E, the company is expected to report single digit volume growth due to weak volume in Q3FY19. As per management the volume in Q4FY19 should improve on expected improvement in demand in its major markets like Maharashtra and Karnataka. Further, the company is expected to take capacity of pipes and fitting business to 370,000 tonne per annum (tpa) by FY19E end (vs 330,000 tpa in FY18 end) and would support its revenue growth. The company intends to add 10-15% capacity through internal accruals in the next 2 years.

### Other highlights

- The price of PVC pipes have been volatile in recent time as the company has taken one price hike and two price cut in the month of December 2018.
- The company would incur Rs 1.5 bn capex in FY19E and Rs 1-1.5 bn in FY20E in order to ramp up capacity and increase product ranges.
- The company is operating at 70% capacity utilization in the pipes business.

### Outlook and valuation

We believe that, FIL would be a major beneficiary from government's focus on irrigation and improvement in rural consumption in the long term. We believe that the demand of PVC pipes from rural segment is expected to revive in coming quarters. We expect the margins in PVC pipes and fittings segment to remain at current level. But resin business is expected to face challenge in terms of maintaining high margins as average PVC-EDC spread has come down to USD 550 per tonne as against highs of over USD 700 per tonne in 2018. We have marginally revised our estimates for FY20E based on higher realization in PVC pipes segment and lower spread in PVC resin segment. The stock is presently trading at PE of 16.7x and 15.8x based on FY19E and FY20E revised EPS of Rs 30 and Rs 31.8 per share, respectively. We maintain our BUY rating on the stock with revised target price of Rs635 (Vs642), valuing the stock at 20x.

**Revision in estimates**

(Rs mn)	Previous		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	31,852	36,793	30,051	34,541	-5.7	-6.1
EBITDA	5,528	6,349	5,865	6,301	6.1	-0.8
EBITDA margin (%)	17.4	17.3	19.5	18.2	212 bps	94 bps
PAT	3,434	3,983	3,727	3,940	8.5	-1.1
EPS (Rs)	27.7	32.1	30.0	31.8	8.5	-1.1

Source: Kotak Private Client Research

**Company Background**

Finolex Industries Ltd (formerly Finolex Pipes Ltd), was incorporated in 1981, and is a leading brand in Indian PVC pipes and fittings market. The company manufactures and sells PVC pipes, fittings and PVC resin. 82% of its revenue is contributed by PVC pipes and fittings and balance 18% is contributed by PVC resins. The company began its journey as a PVC pipes player and further diversified in manufacturing of PVC resin in 1994 as part of its backward integration strategy. Further, it commissioned 43 MW thermal power plant at Ratnagiri in 2009-10 to reduce its dependency on the grid for its power requirements. Presently, FIL is the largest player in terms of market share in agriculture pipes segment and is a leading player in PVC resin business (after RIL and Chemplast) in India. FIL has three pipes manufacturing plants located in Pune (Maharashtra), Ratnagiri (Maharashtra) and Masar (near Vadodara, Gujarat) with installed capacity of 330000 tonne per annum. FIL has strong distribution network with over 700 dealers and 18,000+ retail touch points across country.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>26,024</b>	<b>27,378</b>	<b>30,051</b>	<b>34,541</b>
% change yoy	(8.5)	5.2	9.8	14.9
Direct Cost	16,096	17,644	18,615	21,915
Employee Cost	1,049	1,161	1,278	1,431
Other Expenses	3,249	3,733	4,293	4,894
Total Expenses	20,393	22,539	24,186	28,240
<b>EBITDA</b>	<b>5,630</b>	<b>4,839</b>	<b>5,865</b>	<b>6,301</b>
% change yoy	39.2	(14.0)	21.2	7.4
Depreciation	550	606	725	803
<b>EBIT</b>	<b>5,080</b>	<b>4,233</b>	<b>5,140</b>	<b>5,497</b>
Other Income	243	253	440	396
Interest	153	98	101	101
Profit Before Tax	5,170	4,388	5,479	5,792
% change yoy	38.5	(15.1)	24.8	5.7
Tax	1,648	1,403	1,751	1,852
as % of EBT	31.9	32.0	32.0	32.0
<b>PAT</b>	<b>3,522</b>	<b>2,985</b>	<b>3,727</b>	<b>3,940</b>
% change yoy	38.4	(15.2)	24.8	5.7
Shares outstanding (mn)	124	124	124	124
<b>EPS (Rs)</b>	<b>28.4</b>	<b>24.1</b>	<b>30.0</b>	<b>31.8</b>
DPS (Rs)	11.5	10.0	10.0	10.0
CEPS (Rs)	32.8	28.9	35.9	38.2
BVPS (Rs)	184.6	222.8	241.1	261.2

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	5,170	4,388	5,479	5,792
Depreciation & Others	550	606	725	803
Change in WC	(1,531)	(91)	(567)	(524)
Other operating activities	(1,848)	(1,305)	(1,650)	(1,750)
<b>Operating Cash Flow</b>	<b>2,342</b>	<b>3,598</b>	<b>3,987</b>	<b>4,321</b>
Capex	(936)	(1,583)	(1,500)	(1,200)
Free Cash Flow	1,405	2,015	2,487	3,121
Change in Investments	1,415	(2,977)	-	-
<b>Investment cash flow</b>	<b>479</b>	<b>(4,560)</b>	<b>(1,500)</b>	<b>(1,200)</b>
Equity Raised	-	-	-	-
Debt Raised/Repaid	(1,174)	65	-	-
Dividend	(1,474)	(1,452)	(1,452)	(1,452)
Other financing activity	(113)	2,419	(101)	(101)
<b>CF from Financing</b>	<b>(2,761)</b>	<b>1,032</b>	<b>(1,553)</b>	<b>(1,553)</b>
Change in Cash	59	71	933	1,568
Opening Cash	104	163	234	1,168
<b>Closing Cash</b>	<b>163</b>	<b>234</b>	<b>1,168</b>	<b>2,735</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	1,241	1,241	1,241	1,241
Reserves	21,673	26,405	28,680	31,168
Net worth	22,914	27,646	29,921	32,409
Borrowings	942	1,007	1,007	1,007
Net Deferred tax & others	1,218	537	537	537
<b>Total Liabilities</b>	<b>25,074</b>	<b>29,190</b>	<b>31,465</b>	<b>33,953</b>
Gross Block	9,559	10,456	11,656	12,856
Accumulated Depreciation	1,008	1,614	2,339	3,142
Net block	8,551	8,842	9,318	9,714
Capital work in progress	217	903	1,203	1,203
Investments	12,795	15,772	15,772	15,772
Inventories	5,574	6,116	6,713	7,716
Sundry debtors	525	431	474	544
Cash and equivalents	163	234	1,168	2,735
Loans and advances & Others	2	2	2	2
Total current assets	7,192	7,425	8,998	11,639
Sundry creditors and others	2,275	2,505	2,470	2,839
Provisions	124	149	149	149
Total CL & provisions	3,682	3,753	3,826	4,375
Net current assets	3,510	3,672	5,172	7,264
<b>Total Assets</b>	<b>25,074</b>	<b>29,190</b>	<b>31,465</b>	<b>33,953</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	21.6	17.7	19.5	18.2
EBIT margin (%)	19.5	15.5	17.1	15.9
Net profit margin (%)	13.5	10.9	12.4	11.4
EPS growth (%)	38.4	(15.2)	24.8	5.7
Receivables (days)	7	6	6	6
Inventory (days)	78	82	82	82
Payable (days)	50	48	45	45
Cash Conversion Cycle (days)	47	46	49	48
Asset Turnover (x)	1.3	1.0	1.0	1.1
Net Debt/ Equity (x)	0.0	0.0	(0.0)	(0.1)
RoCE (%)	25.0	16.1	17.3	17.1
RoE (%)	18.2	11.8	12.9	12.6
P/E (x)	17.7	20.8	16.7	15.8
P/BV (x)	2.7	2.2	2.1	1.9
EV/EBITDA (x)	11.2	13.0	10.6	9.6
EV/Sales (x)	2.4	2.3	2.1	1.7

Source: Company, Kotak Securities – Private Client Research

## Result Update

# STERLING TOOLS LTD (STL)

### Stock Details

Market cap (Rs mn)	:	10303
52-wk Hi/Lo (Rs)	:	429 / 280
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	13,834
Shares o/s (mn)	:	36

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	4,529	5,300	5,979
Growth (%)	22.1	17.0	12.8
EBITDA	907	899	1,069
EBITDA margin (%)	20.0	17.0	17.9
Net profit (adjusted)	487	484	554
Adjusted EPS (Rs)	13.5	13.4	15.4
Growth (%)	17.9	(0.5)	14.3
Book value (Rs/share)	68.9	79.9	92.8
Dividend per share (Rs)	2.0	2.0	2.0
ROE (%)	23.6	18.1	17.8
ROCE (%)	30.4	22.9	23.3
P/E (x)	21.2	21.3	18.6
EV/EBITDA (x)	11.1	11.7	9.5
P/BV (x)	4.2	3.6	3.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	65.3	65.3	65.3
FII	0.0	0	0.0
DII	7.6	6.7	6.7
Others	27.1	28.0	28.0

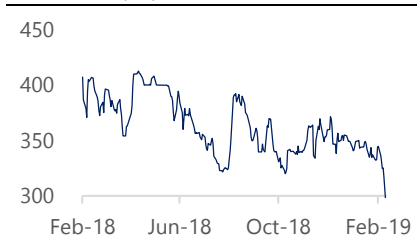
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Sterling Tools	(16.9)	(21.0)	(25.7)
Nifty	0.9	2.9	(4.7)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE Rs.288

TARGET Rs.307

ADD

STL reported weak financial performance in 3QFY19. While revenue growth remained healthy, operating profit and PAT remained under pressure.

### Key result highlights

STL's revenue in the quarter grew by 13% YoY to Rs1,233mn. In 3QFY19, commercial vehicle and two wheeler segment reported production growth, whereas passenger vehicle production volume declined. Due to rise in commodity prices, gross margins declined YoY; although there was improvement on sequential basis. Other expenses remained on the higher side in the quarter, further impacting EBITDA margin. Due to weak operational performance, PAT in the quarter declined by 34% YoY to Rs83mn.

### Outlook and Valuation

STL supplies fasteners to all the automobile segments. While the current auto demand sentiments remain subdued, we expect gradual improvement. Further, there are expectations of pre-buying of vehicles ahead of BSVI implementation. Commodity prices impact is likely to continue in 4QFY19 and the recent correction in commodity prices are expected to have impact from 1QFY20 onwards. We rate the stock as ADD with revised target price of Rs307 (earlier Rs361).

### Quarterly performance

(Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
<b>Revenues</b>	<b>1,233</b>	<b>1,088</b>	<b>13.3</b>	<b>1,393</b>	<b>(11.5)</b>
Total expenditure	1,055	852	23.8	1,126	(6.4)
RM consumed	473	374	26.2	565	(16.4)
Employee cost	91	85	7.6	83	10.2
Power & Fuel Charges	103	92	12.5	104	(0.6)
Consumption of stores and spares	110	96	14.4	115	(4.5)
Other expenses	278	205	35.7	259	7.1
<b>EBITDA</b>	<b>178</b>	<b>237</b>	<b>(24.8)</b>	<b>267</b>	<b>(33.3)</b>
EBITDA margin (%)	14.4	21.8	-	19.2	-
Depreciation	48	47	3.1	46	4.5
Interest cost	6	9	(24.0)	7	(6)
Other Income	11	17	(34.9)	17	(34.5)
Exceptional gain / (loss)					
<b>PBT</b>	<b>134</b>	<b>198</b>	<b>(32.2)</b>	<b>231</b>	<b>(41.8)</b>
PBT margins (%)	10.9	18.2	-	16.6	-
Tax	52	73	(28.9)	79	(34.4)
Tax rate (%)	38.5	36.6	-	34.1	-
<b>Reported PAT</b>	<b>83</b>	<b>126</b>	<b>(34.2)</b>	<b>152</b>	<b>(45.6)</b>
PAT margins (%)	6.7	11.5	-	10.9	-
<b>EPS (Rs)</b>	<b>2.3</b>	<b>3.5</b>	<b>(34.2)</b>	<b>4.2</b>	<b>(45.6)</b>

Source: Company

### Result highlights

- STL's revenues in 3QFY19 grew by 13% YoY to Rs1,233mn. In 3QFY19, commercial vehicle and two wheeler industry reported double-digit growth in production. However, the passenger vehicle industry reported de-growth in production volumes. During 3QFY19, overall retail demand for automobiles remained weak and below expectation, leading to inventory

**Arun Agarwal**

arun.agarwal@kotak.com

+91 22 6218 6443

build-up at the dealer level. As a result, passenger vehicle industry lowered its production to correct inventory levels. Other segments are likely to take production cuts in 4QFY19 to correct dealer inventory levels. In comparison with 2QFY19, revenue fall of 12% broadly reflected double-digit production decline across two wheeler, passenger vehicle and commercial vehicle segment.

- STL's gross margins remained under pressure over 3QFY18 on account of higher commodity prices. STL has raw material cost pass through clause with its customers but the same happens with a lag. Further, in certain instances, STL has to absorb a part of commodity price inflation. As a result, gross margins declined from 65.6% in 3QFY18 to 61.7% in 3QFY19. On a YoY basis, higher other expenses also impacted EBITDA margin performance. Sequentially, negative operating leverage and high other expenses led to EBITDA margin decline. EBITDA in the quarter declined by 25% YoY and 33% QoQ.
- Other income was lower YoY and QoQ and tax rate in the quarter was on the higher side. On the back of weak operational performance, lower other income and higher tax provision, net profit in the quarter declined 34% YoY and 46% QoQ and came in below our expectation.

### Outlook and Valuation

Domestic auto demand has slowed down significantly in the past few months. In anticipation of strong demand in the festive season, OEM's had filled dealer channel with high inventories. However, weak retail demand in the festive season led to higher dealer inventory. In order to correct dealer inventory, OEM's lowered on its production in 3QFY19 and is expected to prune production in 4QFY19. While the current auto demand sentiments remain subdued, we expect gradual improvement. Further, there are expectations of pre-buying of vehicles ahead of BSVI implementation.

In recent quarters, the company faced pressure on gross margins due to rise in raw material prices. Recently raw material cost has witnessed some softening and the impact of this expected to be visible from 1QFY20 onwards. Further expected gradual improvement in demand is likely to translate into operational leverage benefit.

STL's new plant in Bangalore is expected to start production in 1QFY20. Company will be investing ~Rs900mn for an initial capacity of 5,000 MT per annum. Company's current installed plant capacity stands at ~50,000 MTPA and capacity utilization is ~75%.

In view of weak 3QFY19 results, cost pressures and slowdown in auto demand, we cut our FY19/FY20 estimates by 14-15%. We rate the stock as ADD with revised target price of Rs307 (earlier Rs361). We value the stock at PE of 20x (unchanged) on FY20E earnings.

### Earnings estimates

Rs mn	FY19			FY20		
	Old	New	% chg	Old	New	% chg
Revenues	5,475	5,300	(3.2)	6,175	5,979	(3.2)
EBITDA margin (%)	18.5	17.0	-	19.2	17.9	-
Adjusted PAT	561	484	(13.7)	650	554	(14.9)

Source: Koak Securities – Private Client Research

**Key Risk**

- **Slowdown in automobile demand** – STL's sales is largely dependent on OEM's. Any slowdown in sales will impact STL's financial performance,
- **Raw material cost increase** – STL has cost pass through clause with its customers but negotiation time-frame varies between 3 months to 12 months. Thereby in an event of increasing raw material price, the pass through will likely happen with a lag, thereby impacting margins and earnings in the intermediate term. Furthermore, some customers does not pass on full increase in input cost and the same needs to be absorbed by the company.

**Company Background**

STL is one of the leading suppliers of fasteners to the domestic automobile manufacturers. Company manufactures high tensile cold forged fasteners across all the segments in the automobile space. Apart from the domestic OEM's, company also supplies its products in the domestic aftermarket and also export it to Europe. Company's domestic clients includes Honda Motorcycle, Maruti Suzuki, Honda Cars, Ashok Leyland, M&M, Escorts and Tata Motors. STL highlighted that they enjoy a market share of ~27-28%, second to Sundram Fasteners market share of 32-35%. Company's products includes – standard fasteners, chassis fasteners, engine fasteners and special fasteners.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>3,709</b>	<b>4,529</b>	<b>5,300</b>	<b>5,979</b>
% change YoY	0.4	22.1	17.0	12.8
<b>EBITDA</b>	<b>757</b>	<b>907</b>	<b>899</b>	<b>1,069</b>
% change YoY	22.3	19.8	-0.8	18.9
Depreciation	166	176	188	231
<b>EBIT</b>	<b>590</b>	<b>731</b>	<b>711</b>	<b>839</b>
% change YoY	21.8	23.8	-2.7	18.0
Net interest	56	38	27	63
Other Income	69	56	61	76
Exceptional income/(loss)	0	0	0	0
Profit before tax	604	749	745	852
% change YoY	38.9	24.1	-0.6	14.3
Tax	212	263	261	298
as % of PBT	35.1	35.1	35.0	35.0
Profit after tax	392	487	484	554
<b>Adjusted PAT</b>	<b>392</b>	<b>487</b>	<b>484</b>	<b>554</b>
% change YoY	36.1	24.1	-0.5	14.3
Shares outstanding (m)	34	36	36	36
<b>Adjusted EPS (Rs)</b>	<b>11.5</b>	<b>13.5</b>	<b>13.4</b>	<b>15.4</b>
DPS (Rs)	2.0	2.0	2.0	2.0

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	590	731	711	839
Depreciation	166	176	188	231
Change in working capital	(10)	(119)	(68)	(86)
Chg in other net current asset	168	(86)	22	4
<b>Operating cash flow</b>	<b>915</b>	<b>702</b>	<b>853</b>	<b>988</b>
Interest	(56)	(38)	(27)	(63)
Tax	(202)	(267)	(261)	(298)
Other Income	69	56	61	76
EO income	-	-	-	-
Others	(1)	(5)	1	-
<b>Cash flow from operations</b>	<b>725</b>	<b>448</b>	<b>628</b>	<b>703</b>
Capex	(319)	(213)	(952)	(300)
(Inc)/dec in investments	(120)	(545)	35	(200)
Cash flow from investments	(439)	(759)	(917)	(500)
Proceeds from issue of equities	-	4	-	-
Increase/(decrease) in debt	(290)	(59)	382	(125)
Proceeds from share premium	0	439	-	-
Dividends	(82)	(87)	(87)	(87)
<b>Cash flow from financing</b>	<b>(372)</b>	<b>298</b>	<b>295</b>	<b>(212)</b>
Opening cash	115	28	15	21
<b>Closing cash</b>	<b>28</b>	<b>15</b>	<b>21</b>	<b>12</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	28	550	521	712
Accounts receivable	342	455	508	573
Inventories	459	545	630	707
Loans and Adv & Others	154	225	243	263
Current assets	984	1,774	1,902	2,256
LT investments	179	189	189	189
Net fixed assets	1,546	1,584	2,348	2,417
<b>Total assets</b>	<b>2,709</b>	<b>3,547</b>	<b>4,439</b>	<b>4,861</b>
Payables	286	365	436	491
Other liabilities	205	182	200	220
Current Liabilities	491	547	636	712
Provisions	18	25	48	53
Deferred Tax Liability	157	152	152	152
Debt	402	343	725	600
Equity	68	72	72	72
Reserves	1,574	2,408	2,806	3,273
<b>Total liabilities</b>	<b>2,709</b>	<b>3,548</b>	<b>4,439</b>	<b>4,861</b>
BVPS (Rs)	48	69	80	93

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Margins</b>				
EBITDA margin (%)	20.4	20.0	17.0	17.9
EBIT margin (%)	15.9	16.1	13.4	14.0
Adj. net profit margin (%)	10.6	10.7	9.1	9.3
<b>Working capital days</b>				
Inventory (days)	45	44	43	43
Receivable (days)	34	37	35	35
Payable (days)	28	29	30	30
<b>Ratios</b>				
Debt/equity ratio (x)	0.2	0.1	0.3	0.2
ROE (%)	26.4	23.6	18.1	17.8
ROCE (%)	30.2	30.4	22.9	23.3
<b>Valuations</b>				
EV/ Sales	2.7	2.2	2.0	1.7
EV/EBITDA	13.4	11.1	11.7	9.5
Price to earnings (P/E)	25.0	21.2	21.3	18.6
Price to book value (P/B)	6.0	4.2	3.6	3.1

Source: Company, Kotak Securities – Private Client Research



## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

### FUNDAMENTAL RESEARCH TEAM

<b>Rusmik Oza</b> Head of Research rusmik.oza@kotak.com +91 22 6218 6441	<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Amit Agarwal</b> Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	<b>Nipun Gupta</b> Information Tech, Midcap nipun.gupta@kotak.com +91 22 6218 6433	<b>Deval Shah</b> Research Associate deval.shah@kotak.com +91 22 6218 6423
<b>Sanjeev Zarbade</b> Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	<b>Jatin Damania</b> Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	<b>Cyndrella Carvalho</b> Pharmaceuticals cyndrella.carvalho@kotak.com +91 22 6218 6426	<b>Ledo Padinjarathala, CFA</b> Research Associate ledo.padinjarathala@kotak.com +91 22 6218 7021
<b>Teena Virmani</b> Construction, Cement, Buildg Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Sumit Pokharna</b> Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434	<b>Krishna Nain</b> M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	<b>K. Kathirvelu</b> Support Executive k.kathirvelu@kotak.com +91 22 6218 6427

### TECHNICAL RESEARCH TEAM

<b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com +91 22 6218 5408	<b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350	<b>Faisal Shaikh, CFTe</b> Research Associate faisalf.shaikh@kotak.com +91 22 62185499	<b>Siddhesh Jain</b> Research Associate siddhesh.jain@kotak.com +91 22 62185498
---	---	---	--

### DERIVATIVES RESEARCH TEAM

<b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231	<b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420	<b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497	<b>Prasenjit Biswas, CMT, CFTe</b> prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	--

## Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE), National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on [www.kotak.com](http://www.kotak.com)

1. "Note that the research analysts contributing to the research report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account

Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc. (Member FINRA/SIPC) and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc. (Member FINRA/SIPC) at 369 Lexington Avenue 28th Floor NY NY 10017 USA (Tel:+1 212-600-8850).

Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services. Accordingly, any brokerage and investment services including the products and services described are not available to or intended for Canadian persons or US persons."

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: Arvind Ltd, Engineers India - Yes

Nature of financial interest is holding of equity shares or derivatives of the subject company.

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

By referring to any particular sector, Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing. Such representations are not indicative of future results.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at <https://www.nseindia.com/ChartApp/install/charts/mainpage.jsp> and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com)/[www.kotak.com](http://www.kotak.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137 (Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com).

In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at [ks.demat@kotak.com](mailto:ks.demat@kotak.com) or call us on: Toll free numbers 18002099191 / 1860 266 9191
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at [ks.escalation@kotak.com](mailto:ks.escalation@kotak.com) or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at [ks.servicehead@kotak.com](mailto:ks.servicehead@kotak.com) or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com) or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at [ceo.ks@kotak.com](mailto:ceo.ks@kotak.com) or call on 91- (022) 4285 8301.